



Lao PDR

Labour standards and productivity in the garments export sector

A survey of managers and workers

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CURRENCY EQUIVALENTS

Currency unit = Lao Kip

US\$ 1 = 8,000 Kip

ABBREVIATIONS AND ACRONYMS

AFTA	ASEAN Free Trade Area
ALGI	Association of Lao Garments Industries
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
BFC	Better Factories Cambodia
BSCI	Business Social Compliance Initiative
ES	Enterprise Survey
FGD	Focus Group Discussion
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IFC	International Finance Corporation
ILO	International Labor Organization
LECS	Lao Expenditure and Consumption Survey
LGSS	Lao Garment Sector Survey
LNCCI	Lao National Chamber of Commerce and Industry
MFA	Multi Fiber Agreement
MoIC	Ministry of Industry and Commerce
MoLSW	Ministry of Labour and Social Welfare
NSEDP	National Socio-Economic Development Plan
NTR	Normal Trade Relations
SocSO	Social Security Organization
WRAP	Worldwide Responsible Accredited Production
WTO	World Trade Organization

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Summary

This report describes labour practices in the Lao garments export sector as seen by both management and labour. It is based on an analysis of primary data collected through a representative survey of firm managers; focus group discussions among current and former garment workers; and, key informant interviews. To date there has been only limited documentation of these issues in Lao PDR and this research seeks to begin filling this gap.

The Lao garments industry is comprised of approximately 100 firms, employing just over 20,000 workers. Annual exports are around US\$ 200 million, most of which go to the European Union. The industry is modest by most international standards, but is the largest formal sector of manufacturing employment in a country which is trying to manage the effects of a natural resources boom on the rest of the economy.

Workers are mostly young women from rural and peri-urban areas seeking to earn income to secure a better life for themselves and their families. Many would have liked to continue their education, but their families could not afford it and a remarkable number of workers send remittances home so that siblings can gain a better education (and avoid factory work). Factory work, although difficult and demanding is considered less arduous and offers better income opportunities than alternatives such as household farming.

Most workers see garments work as an interim strategy to build savings in order to start their own small business and/or family. Workers have very little knowledge of factory work and living conditions prior to recruitment and very limited understanding of what it means to work in a modern industrial setting. Hours are long (8hrs/day, 6 days a week plus overtime) and workers complain about compulsory overtime, sometimes until early morning hours. Even in relatively “good” factories, workers complain of insufficient drinking water, poor air quality and heat, inadequate sanitation facilities, difficult living conditions, strict factory rules and difficult relations with supervisors.

Firms identify the supply of labour as their most significant constraint. Attrition from large and medium firms is around 3.5 percent of the workforce every month, while small firms lose on average just over 6 percent of their workers every month. Firms also report that as many as half of their workforce has been with the factory for three years or more, suggesting very high drop-out rates and churning primarily among new labour market entrants. As a result, the sector is operating at levels below full capital utilization due to labour shortages. Firms want to invest in improving labour productivity, but are afraid of losing their return on investment because of high staff turnover. While high attrition rates plague garments industries in many countries, managers of multi-national companies operating in Lao PDR report that this rate is high, even by regional industry standards.

Reasons for workforce departures are multiple, but include difficult transitions, especially for rural migrants with insufficient information on working and living conditions or understanding of their contractual rights and obligations. Wages, both rates and a perceived lack of consistency and transparency (due in part to poor numeracy among new workers), and working hours, particularly excessive overtime demands, are identified as the primary reasons workers quit. Lao workers also resent pressure and conflicts with supervisors that can be further exacerbated by cultural clashes with foreign male supervisors. The lack of effective systems of worker representation or dispute resolution mechanisms provide limited means of resolving problems, so workers feel they simply have to 'put up' with difficult situations and talk of quitting when 'they can no longer stand it'.

The sector appears to be stuck in a low equilibrium trap with worker dissatisfaction driving high worker turnover, which in turn drives low capacity utilization, investment in workforce skills upgrading and training and productivity. Workers cannot voice their interests and there is no effective system of workforce representation or collective bargaining. Thus, when faced with problems, workers feel that they have little alternative but to withdraw their labour, further exacerbating the labour supply problems that the industry faces. Lao PDR is also struggling with access to premium buyers due in part to a perceived lack of credible information on the industry's labour standards and management practices.

In order for the garment sector to progress, this study points to possibilities to increase worker wellbeing, reduce turnover and improve productivity through mutually reinforcing actions. Possible interventions include: a transition support program and improved labour market information systems to support labour force entry; better worker representation and dispute resolution mechanisms; and, a factories improvement program that would include monitoring/certification systems to provide incentives for firms to improve conditions as a means of accessing elusive premium buyers.

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1. Introduction

This report describes labour practices in the Lao PDR garment sector as seen by both management and workers. It is based on an analysis of primary data collected through a representative survey of firm managers, focus group discussions among current and former garment workers, and key informant interviews in the Lao Garment Sector Survey (LGSS) coordinated by the World Bank between March and May 2011. To date there has been only limited documentation of these issues in Lao PDR and this research seeks to begin filling this gap. In particular, it seeks to help increase understanding of the dynamics and drivers of worker flows into and out of the industry.

The Lao industry, while modest by international standards, is the largest source of employment in the manufacturing sector, and a significant contributor to annual exports. Though the industry has managed to survive the international liberalization of the garment trade, firms are constrained by high landlocked transport costs and increasingly trapped in a cycle of low labour productivity and high staff turnover rates. While reported instances of extreme violations of international labour standards appear to be few, employees, many of whom are young female migrants, suffer from often difficult working and living conditions, long hours and compulsory overtime, and, for the most part, have a very limited understanding of their contractual rights and obligations. They tend to see work in the garment sector as a temporary phase in their life undertaken to gain much-needed income to help parents and siblings make ends meet, and to improve their own future prospects. Thus, firms struggle to raise productivity when faced with a perpetual need to replace experienced workers with new unskilled recruits, and the sector remains stuck in a sub-optimal equilibrium of low-productivity and high turnover rates.

Our main objective in this report is to present the differing perspectives on working conditions between managers and workers, and to explore ways in which the Lao garment sector could break out of this unsustainable situation. More specifically, insights on management practices, working conditions and worker motivation, as well as industry technology and workflow practices, are drawn from the survey and recommendations made on what firms, industry, government and development partners can do to boost productivity in the sector. Given the particular constraints to the sector in Lao PDR, there is a particular focus on how labour standards might be improved upon to reduce the high levels of attrition which are currently inhibiting investments aimed at enhancing labour productivity.

Section 2 provides a general overview of the garment sector in Lao PDR and its characteristics, situating it in the context of other developments both within the Lao economy and in international trade. Section 3 offers a brief description of the institutional setting, in terms of the business environment, industrial relations, labour laws and mechanisms for workers' representation. Section 4 then situates Lao garment workers in the country's economic transition and shifting labour markets and links this to broader evidence on the gender division of labour in the global economy, and in particular, on the contradictory effects of working in the manufacturing sector for women. Section 5 describes data and methodology of the LGSS. Section 6 gives a brief overview of firm characteristics and workforce demographics as revealed through the LGSS. Sections 7 and 8 present and contrast the perspectives of managers and workers on labour practices and productivity in the Lao garment sector; together, these sections constitute the main contribution of the report. Finally, section 9 offers reflections on possible ways forward.

2. The garment sector in Lao PDR

While modestly sized by the standards of neighbouring country garment producers¹, the Lao garment sector is the country's largest manufacturing employer. The industry employs more than 20,000 workers (or about 1 percent of the country's total labour force) and produces almost exclusively for international markets—some firms sell directly to international buyers while others subcontract. Similar to workforce demographics in garment industries globally, most factory workers are young women between the age of 16 and 25, about half of whom have migrated from regions outside of the capital, Vientiane (where almost all factories are located).

Most Lao garment firms were established in the early to mid 1990s as manufacturers sought to establish a production base in a country that was not quota constrained and had relatively low labour costs. Many anticipated a severe contraction in the Lao garment industry following the expiration of the Agreement on Textiles and Clothing in 2005², but the sector has managed to confound expectations by surviving and indeed continuing to grow³. Similarly, the sector managed to escape the significant drops in orders that so badly affected neighbouring Cambodia during the 2008-09 global financial crisis and drops in world trade. As of mid-2011, garment producers in Lao PDR were reporting strong orders with a number of firms now unable to meet demand from buyers.

Indeed, the LGSS found garment managers to be generally positive about business prospects for their firms and the sector generally. The majority of managers across all firm sizes are expecting sales to increase in 2011, although a smaller majority (especially amongst large firms) believed this would correlate to increased profits and some were less optimistic about the industry's prospects over the medium term. Indeed, findings from a recent global study of the post-Multi-fibre Agreement (MFA) apparel industry would suggest that the small Lao industry will continue to face downward wage pressures from larger competitor countries unless it can successfully upgrade its apparel sector, including through investment in workers (Lopez-Acevedo and Robertson 2012).

Annual garment exports have hovered just under the US\$ 200m mark in recent years⁴. This currently represents the fourth most significant export sector in terms of revenue after minerals (mostly copper and gold), wood products and hydropower. However, while the sector has seen reasonable rates of growth during the last decade, this has been outstripped by faster growth in the mining and hydropower sectors. Thus the share of garment exports as a percentage of total exports has declined from around 24 percent in the early 2000s to just over 6 percent in 2011 (Figure 1). Value addition appears to be growing steadily also as the average value of each piece is rising.

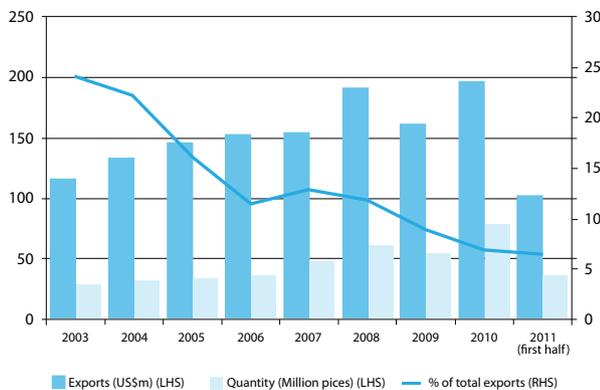
¹ Compare, for example, with 290,000+ garment workers in Cambodia.

² The Agreement on Textiles and Clothing (ATC) was enacted in 1995 as part of the establishment of the WTO. Previously trade in textiles and garment was controlled via a complex system of quotas under the Multi Fibre Agreement (MFA) and lay outside the scope of the General Agreement on Tariffs and Trade (GATT). The purpose of the ATC was to provide WTO members with a ten year adjustment period to dismantle quotas.

³ This, notwithstanding research showing that it is increasingly difficult for smaller suppliers to compete with leading supplier countries and firms who have strengthened their positions in the post-MFA world (Staritz 2010).

⁴ Gross garments exports reached a record US\$ 206m in 2008; and in an August 2011 article in the Vientiane Times newspaper, the head of the Association of Lao Garment Industries reported that export value of Lao garments had reached about US\$ 100m during the first six months of 2011, rising about 29 percent from the same period of the previous year.

Figure 1: Lao garment exports have been rising steadily, but the sector's share of total exports has declined

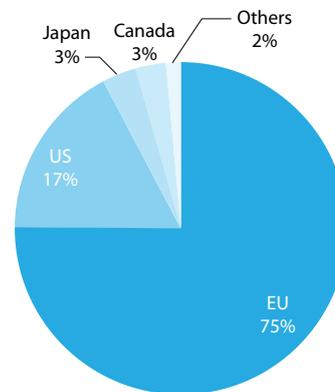


Source: ALGI and World Bank staff estimates

Most garments (around 75 percent) are exported to the EU. This is primarily resulting from the additional tariff advantages associated with Lao PDR's duty-free access to the EU market under the terms of the "Everything But Arms" Agreement, but also due to the small size of Lao garment producers and their inability to meet the larger orders required to compete in the US market. The US market has grown in importance since the establishment of Normal Trade Relations (NTR) in 2005, but still remains of limited importance to the Lao garment sector (Figure 2).

Nonetheless, the garment industry is an important component of the current Lao Government's trade integration and export diversification strategy. It is also one of the few major export sectors that has the potential to generate significant employment, with the other primary exports in the natural resource sectors generating comparatively few jobs⁵. Similarly, in many other developing countries, the garments manufacturing sector (as

Figure 2: The EU is by far the largest destination for Lao garment exports



a source of demand for relatively low skilled labour) has played an important role in the transition of the population working in the agriculture sector to industry.

However, the Lao garment industry struggles to compete given low productivity, high transport costs and long lead times associated with a land-locked supply chain⁶. Exporting a standard 40ft container from Vientiane adds as much as 45 percent to total shipping costs to the final destination and can double total shipping time, compared to exporting a container from Bangkok⁷.

Firms also have difficulties in attracting and retaining workers. Many garment firms would like to be running more production lines and report having to turn away orders because they do not have sufficient machine operators. This problem appears to be pervasive regardless of enterprise size or ownership⁸. Reasons cited by the industry managers for the existing shortage include: a recent

⁵ See Record and Nghardsayone (2010) for a wider discussion on Lao PDR's export economy.

⁶ A 2006 study by the Lao National Statistics Centre focused on three main aspects of competitiveness in the Lao garment sector: labour costs, labour and capital productivity, and lead times. The study found that the hourly wage in Lao PDR was considerably lower than in China (US\$ 0.12 vs. US\$ 0.68) but that Lao labour productivity in the sector was also substantially lower. (NSC 2006)

⁷ World Bank (2010) 'Lao PDR Trade Facilitation Performance', Trade Development Briefing Note No.2, The World Bank Vientiane Office, January.

⁸ World Bank (2011) Lao PDR Investment Climate Assessment: Policies to Promote Growth in the Non-resource Sectors, The World Bank, Washington, DC.

expansion of this sector; competition from other sectors like tourism (now growing at 16 percent per annum); higher relative wages for unskilled jobs in Thailand; and the negative social status associated with being a garment worker in Lao PDR. However, findings from interviews conducted

for this survey with current and former garment workers suggest that other issues are also be at play: namely, that long hours and low pay rates, difficult working and living conditions, as well as tense workplace relations are key reasons that workers leave the industry.

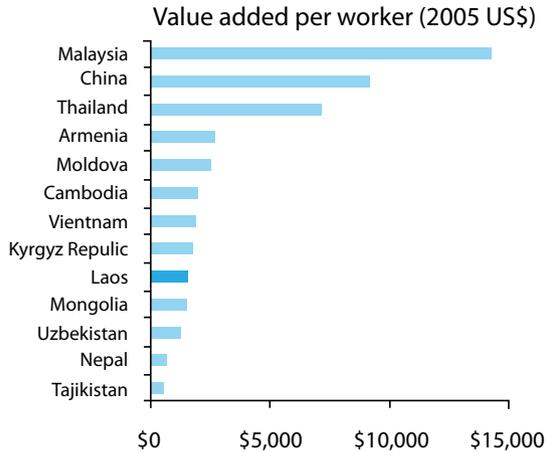
3. Business environment and industrial relations in Lao PDR

Lao PDR, with its small population, low rate of urbanization, and high inland transport cost to regional sea ports, will perhaps inevitably struggle to compete on cost with regional competitors in labor-intensive manufactured exports. The economically active population is estimated at 3 million, half of the total population. A low urbanization ratio of 27 percent puts the total non-agricultural labor force in 2010 at around 650,000 persons. Out of this, only about 260,000 are employed by firms in manufacturing and service sectors⁹. In contrast unofficial estimates put the number of migrant workers working in Thailand at about 250,000. This small employment base in the country certainly contributes to the shortage of labor faced by garment manufacturers. This study seeks to go behind these figures and find out more about what motivates workers to enter the garments sector and why they leave at such high rates.

Research from the new Investment Climate Assessment for Lao PDR also suggests that labour productivity of Lao firms is lower than in most

comparator countries and lower than one would expect for a country at this income level. Indeed, productivity in Lao PDR is slightly lower than Cambodia and Vietnam and significantly lags behind the leading countries in the region such as China, Thailand and Malaysia (Figure 3).

Figure 3: Labour productivity in Lao PDR is lower than in the most successful exporting economies



Source: World Bank Enterprise Surveys (2009)

⁹ Ibid

New research also finds that unlike in most countries, exporting firms in Lao PDR show lower levels of productivity than non-exporters (Table 1)¹⁰. This finding is counterintuitive as in most countries exporters are more productive than non-exporters, large firms are more productive than small firms and foreign-owned firms are more productive than domestic firms¹¹. This is not the case in Lao PDR. World Bank analysis indicates that although the median foreign-owned firm is slightly more productive than median domestic firm, non-exporters are more productive than exporters¹²

and small firms are more productive than large firms. Average value added per worker for all firms in Lao PDR is US\$ 1,554, while the average for garment firms is US\$ 1,009. In addition to sectoral differences between exporters and non-exporters, it is also possible that low levels of competition in domestic markets affect measured productivity. This study seeks to investigate further possible factors contributing to low-productivity including management practices, working conditions and worker motivation, as well as industry technology and workflow practices.

Table 1: Firm performance in Lao PDR, by firm type

	Number of Workers	Value added per worker	Unit Labor Costs	Labor Costs per Worker	Capital per worker (book value)	Capital Productivity
All	11	\$1,554	36%	\$439	\$1,110	134%
Internationalization						
Exporters	30	\$415	60%	\$197	\$1,233	72%
Non-exporters	10	\$3,808	32%	\$533	\$888	194%
Ownership						
Foreign-Owned	89	\$1,775	38%	\$710	\$1,686	131%
Domestic	10	\$1,516	36%	\$432	\$1,057	136%
Size						
Small (5-19)	7.5	\$2,190	36%	\$355	\$740	214%
Medium (20-99)	30	\$1,606	33%	\$666	\$2,466	17%
Large (100 and up)	220	\$1,246	39%	\$631	\$711	131%
Sector						
Garments	30	\$1,009	68%	\$601	\$841	103%
Furniture and wood	8	\$451	60%	\$333	\$2,561	93%
Other	11	\$3,916	32%	\$444	\$888	194%

Source: World Bank Enterprise Survey (2009)

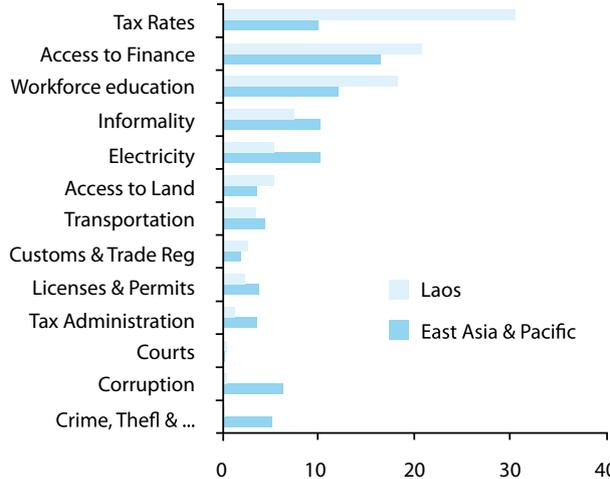
¹⁰ Ibid.

¹¹ Note that size categories (small, medium, large) used in the Enterprise Survey (which includes firms from all sectors) differ somewhat from those used in this Garments Sector Survey. However, the relationship between firm size and labour productivity across the larger formal private sector found in the Enterprise Surveys appears to also hold in the garments sector.

¹² This is a result taken from the 2009 Lao Enterprise Survey (and discussed in the 2011 Investment Climate Assessment), and holds for all manufacturing firms in the ES sample, of which garments manufacturing represents around a third. It is a counterintuitive result, but likely driven by the emerging signs of Dutch disease associated with the Lao natural resources boom, as well as low competition in the domestic market. This is driving up the returns to non-exporters, while exporters struggle with a costly supply chain and low productivity which erodes competitiveness.

When asked to name the most binding constraint to business development, businesses in Lao PDR (including both manufacturers and services firms) identify taxation, access to finance and an inadequately educated workforce (in that order, see Figure 4)¹³.

Figure 4: Tax rates, access to finance and lack of skilled labor as the top obstacles to growth (% of firms)



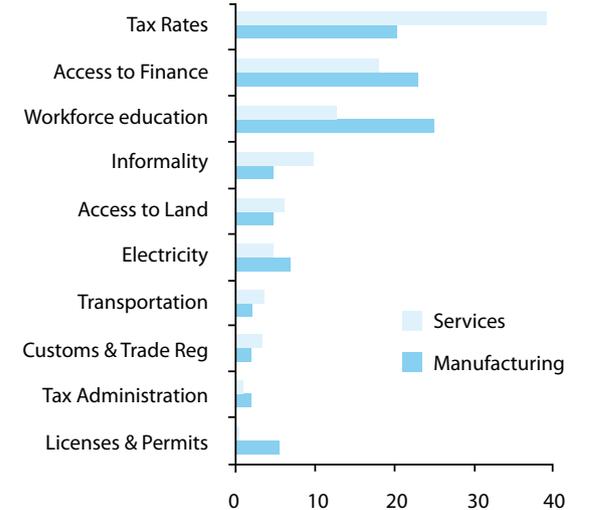
Source: World Bank Enterprise Survey (2009)

The garment industry saw some of the first private capital investment in Lao PDR following the introduction of the New Economic Mechanism in 1986, which signalled the country’s transition towards a market economy. The Association of Lao Garment Industries (ALGI) is therefore one of the longest established members of the Lao National Chamber of Commerce and Industry (LNCCI). However, the Lao private sector continues to struggle with legacies of a heavily regulated and planned economy.

The Lao government has also struggled to adapt from its role as ‘central planner’ to more one of ‘regulator and facilitator’. This is evident in the area of industrial relations which have not evolved apace with the emerging private sector and lag even in comparison to other regional ‘transition’

However, among manufacturers (of all products) in Lao PDR, workforce education is identified as the most significant constraint (Figure 5).

Figure 5: Tax rates are the main obstacle for firms in service, poor skills and finance lead in manufacturing firms (% of firms)



economies. During the 2000s, political and trade union leaders in China and Vietnam (which are the models often used by Lao economic policy makers) began to recognize that without properly functioning trade unions to represent workers in collective bargaining and social dialogue, it would be hard to maintain the stability and cohesion needed for sustained economic development. As in both China and Vietnam, Lao national trade union structures are fully incorporated into the political structure of communist party (Yoon 2009). The representation of workers in the Lao garment and all other sectors of the economy remains solely mandated through the official mass organizations of the Lao People’s Revolutionary Party (the Lao Federation of Trade Unions, the Lao Women’s Union, and the Lao Youth Union).

¹³ World Bank (2011) op. cit.

While the 2006 Lao Labour Law establishes basic national labour standards (such as minimum wages, restrictions on overtime, and entitlements such as maternity and sick leave)¹⁴ and incorporates elements of ILO core labour standards¹⁵, these appear to be only weakly enforced and there is very limited opportunity for third party arbitration or dispute resolution. Labour standards established under contracts with foreign buyers or international trading regimes seem to create stronger inducements for compliance, although these systems of voluntary certification and periodic audit-

ing do not appear to be sufficient to counter some of the unfair labour practices and difficult working conditions reported by workers. Absent a system of collective bargaining or effective representation through official mass organizations, garment workers have limited effective bargaining power. As a result, when individuals are dissatisfied with working conditions, they have little alternative than to simply quit - contributing to the industry's vexing constraints of high turnover rates and insufficient labour supply.

4. Garments workers and the labour market in Lao PDR

Women's participation in paid employment has risen in most countries over recent decades (ILO 2007) and Lao PDR is no exception¹⁶. While many factors contribute to this trend, trade liberalization clearly drives the feminization of manufacturing in many developing countries: the greater the share of garments, textiles and electronics in a country's exports, the greater the employment-creating impact of trade for women. This has led to a proliferation of studies and debates around the situation of women workers within globalization, their struggles for rights, and the implications of the rise of female waged employment for women's autonomy and self-esteem. While some

authors focus on exploitative working conditions, health hazards, and lack of training and promotion, others argue that such images do not always hold true and that factory work is the only option most women have for earning 'legitimate' cash income and 'working with dignity'. Furthermore, while working conditions are generally poor across labour-intensive manufacturing sectors, it is not clear they are significantly worse than in other non-skilled or semi-skilled jobs open to women. However, patterns are varied and changing, with differences, for example, between semi-industrialized countries and lower income countries, and between young single women (who used to be

¹⁴ Labour Law (Amended), Passed by National Assembly 27 Dec 2006; Promulgated by Presidential decree No. 05/PO, 16 Jan 2007.

¹⁵ Lao PDR has ratified five out of the eight ILO Conventions corresponding to core labour standards, and the revised Labour Law of 2006 includes key principles from these ratified conventions. Lao PDR has ratified ILO Conventions as follows: C29 on Forced Labour; C100/C111 on Equal Remuneration and Employment Discrimination; C138 on Minimum Age; and C182 on Worst Forms of Child Labour. Although Lao PDR did not ratify the Conventions on Collective Bargaining (C98) and Freedom of Association (C87) elements of these core labour standards are included in the 2006 Labour Law (although within the unitary socialist state model of a national workers' trade union). The only Convention that has neither been ratified nor reflected in conforming legislation is C105 (Abolition of Forced Labour), but a study has been undertaken by MOLSW in partnership with ILO to support a decision on this issue (<http://www.ilo.org/ilolex/english/index/htm> accessed on 05/05/2011).

¹⁶ Lao Population Census data show that between 1995-2005, the proportion of women in wage employment nationwide increased from 38 to 44 percent, rising at a rate of about 1 percentage point per year (NSC 2005).

the preferred workforce, at least initially, in Asia) and older, married and better-educated women who are increasingly perceived as better workers (in Mexico for instance, because they are more mature, reliable and less apt to jump from one job to another) (Fontana 2009).

The labour market in Lao PDR, although changing, remains highly informal and agriculture-based. More than 71 percent of households—including 40 percent of urban households—report agriculture, forestry, or fishing as their main activity and most of this work is on family-run smallholdings¹⁷. The latest Population Census data suggests that only around 6 percent of the population, or around 13 per cent of the active labour force, works in the formal sector; and that public sector workers¹⁸ still outnumber private sector workers. Thus, notwithstanding Lao women's high labour force participation rates (amongst the highest in the region)¹⁹ most of this is as 'own account workers' or 'unpaid family workers' in the agriculture sector (World Bank and Asian Development Bank, forthcoming). Thus, the labour market in Lao PDR remains very thin and capacity for labour market regulation or standards enforcement remains lim-

ited. Nonetheless, garments sector work is one of the few opportunities available to young women with limited skills or education to access wage employment.

Lao garment workers can also be situated in the context of broader shifts in Lao labour market dynamics. In particular, they are part of the growing phenomenon of rural-urban migration linked to shifts away from agriculture to service and industrial sector work in the context of the country's rapid economic transition. Female rural-urban migration to factory work is a relatively recent phenomenon in Lao PDR, and it has successively gained acceptance as an economic strategy in rural communities. However, young women experience many tensions between traditional responsibilities towards their families, their low-paid and low-status positions as garment factory workers, and their aspirations to participate in modern urban consumer culture (Phouxay and Tollefsen 2011). This study seeks to understand better the experiences of Lao garment factory workers as they try to balance these competing demands and aspirations.

5. Data and methodology

The analysis presented in this report is based on primary data collected by the World Bank in Lao PDR between March and May 2011 through a variety of methods as follows:

1. Structured firm surveys conducted with owners/managers of garment factories using stratified random sampling of more than half of all firms, representing over 70 percent
2. Focus group discussions (FGDs) conducted with garment factory workers from small, me-

of the garments workforce. Data from these surveys provide a broad picture of basic firm characteristics, workforce demographics, labour standards and practices, and information related to labour productivity in the Lao garment sector.²⁰

¹⁷ National Statistics Center, Lao Economic and Consumption Survey 2007/08 (LECS4).

¹⁸ National Statistics Center, Population Census 2005.

¹⁹ UNDP, Asia Pacific Human Development Report, 2010 (calculations based on ILO, Key Indicators of the Labor Market, 2009, Sixth edition, Geneva).

²⁰ For more details, see Annex A on quantitative methods and Annex B on qualitative methods.

dium and large-sized factories. Participants were selected to represent a range of demographic characteristics and work-experiences (long-term and shorter-term employees, current and former workers, migrants and Vientiane residents, ages, marital/family status, etc.). Discussions touched on the following topics: recruitment experiences and expectations; working and living conditions; workers'

social status and expectations; personal well-being and future aspirations.

- Individual interviews conducted with workers, supervisors (head of line) and dormitory managers from the same factories selected for FGDs, as well as with some key industry leaders. These were used to triangulate the information collected through the surveys with managers and FGDs with workers.

6. Firm characteristics and workforce demographics

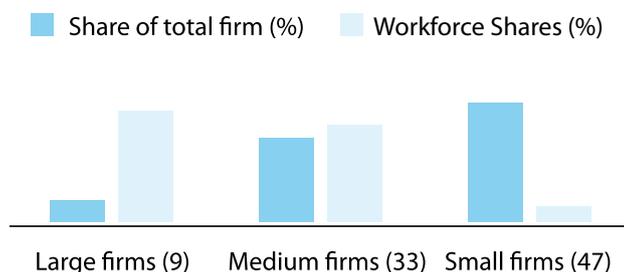
The following section gives a brief overview of firm characteristics and workforce demographics²¹ as revealed through data collected in the LGSS:

6.1 Firm size, workforce shares and annual sales

The LGSS drew from a sample of 89 garment manufacturing firms employing a total of 19,540 workers. Firms were grouped according to size:

small firms (with less than 100 employees), medium firms (with between 100-499 employees), and large firms (with 500 or more employees)²². The following chart (Figure 6) describes these categories of firms in terms of their share of all Lao garment firms (share of total firms) as well as their share of the total Lao garment workforce (workforce shares). Thus, as can be seen below, large firms constitute only 10 percent of all firms, but almost half of the total garment sector workforce.

Figure 6: Larger firms are few in number, but account for the bulk of the workforce



Source: World Bank LGSS (2011)

²¹ The section on workforce demographics is based on a sub-set of the sample because three firms did not complete the survey (1 large + 2 medium firms) and were excluded.

²² Please note that this scale of garment firm size was developed specifically for this study of the Lao garments sector to reflect observed segmentation of the industry which in turn allows for analysis of relationships between specific firm characteristics/profiles and labour practices and/or productivity outcomes. This scale differs from the Lao Government's categorization of firms as micro/small/medium/large as those having respectively, 1-4, 5-19, 20-99, 100+ employees. According to this classification almost all Lao garments firms would be considered either medium or large.

Medium firms constitute another 43 percent of the workforce, while small firms constitute only 8 percent of the workforce, although they account for over half of all firms.

Although not all firms reported and there were some difficulties in interpreting the figures declared by those who did, average annual sales (Jan – Dec 2010) ranged from around US\$ 67,000 for small firms, to US\$ 640,000 for medium firms and US\$ 6.8 million for large firms²³.

6.2 Market orientation and international certification

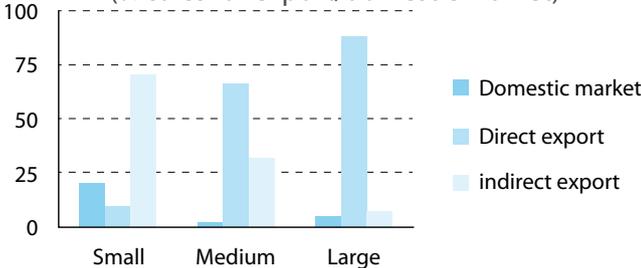
Firms across all size-categories tend to have a ‘dominant market orientation’; that is, they tend to produce almost entirely for either direct export, indirect export (i.e. sub-contracted by a direct exporter), or for the domestic market. Direct exports represent the vast majority of total sales declared by large firms and about two-thirds of total sales by medium firms, while small firms are producing

primarily for indirect export, and, to a lesser extent, for the domestic market²⁴ (Figure 7). Most exports are destined for Europe (62 percent), US/Canada (18 percent), Japan (12 percent) and Thailand²⁵ (4 percent)²⁶. Two-thirds of all large firms report participating in an international social compliance certification scheme, while no small firms and only one medium-sized firm did²⁷.

6.3 Nationality and gender of ownership

The ownership structure of garment firms also varies significantly by size. Small firms are overwhelmingly Lao-owned, while a majority of large firms have foreign or mixed foreign and Lao ownership. Medium firms are more evenly split between Lao-owned and foreign or mixed-ownership structures. Foreign owners are predominantly regional nationals with Thais constituting the largest group of foreign owners (50 percent) followed by Japanese (20 percent) and Australian (10 percent).

Figure 7: Market orientation of Lao garment manufacturers (% sales for export/domestic market)



Source: World Bank LGSS (2011)

²³ Most of the firms declared their annual sales in Lao Kip (LAK) which was converted in USD taking the average exchange rate over the period, but some inconsistencies remained in the data and 3 firms had to be dropped from the sample. Thus, these figures remain largely indicative and useful more for understanding differences in orders of magnitude of market shares across firm sizes. Keep in mind also that there are significant differences within categories in terms of firm size/market shares (e.g. large firms ranged from 600 to over 2000 employees).

²⁴ As the domestic market in Lao PDR is extremely small, some portion of these reported ‘domestic’ sales are likely being sold to larger exporting firms.

²⁵ Many exports reported to Thailand are likely sub-contracted production destined for onward export to other markets.

²⁶ Note that these figures differ slightly from those reported by the Association of Lao Garment Industries in Figure 2. However, the overall trend is broadly the same.

²⁷ Firms most commonly participate in WRAP (Worldwide Responsible Accredited Production), a US-based non-governmental organization established in January 2000 as a certification program for labor-intensive consumer products manufacturing and processing, based on 12 principles focusing on local law and workplace regulations, generally accepted international workplace standards, and the environment. One firm participates in SA 8000 created in 1997 by US-based non-governmental organization Social Accountability International for improving working conditions with eight core elements including: health and safety, working hours, child labor, forced labor, discrimination, freedom of association and collective bargaining, wages, and discipline. Another participates in BSCI (Business Social Compliance Initiative) of the European-based Foreign Trade Association created in 2002.

Women represent nearly a third of Lao garment firm owners and over half of all managers²⁸. Both female ownership and management presence vary by firm size with higher levels of both amongst medium and small-sized firms as compared with large firms.

6.4 Employee contract status

The majority of workers in medium and large firms surveyed hold permanent ‘open-ended’ or ‘term’ contracts (of at least 1 year), while only 36 percent of those in small firms do. The remainder of all workers are either short-term employees (less than one year) or day labourers. There was no gender-bias found in employment contract status as revealed through this survey within the garment sector; that is, male and female garment workers were found to be as likely to hold permanent or short-term contracts across small, medium and large firms.

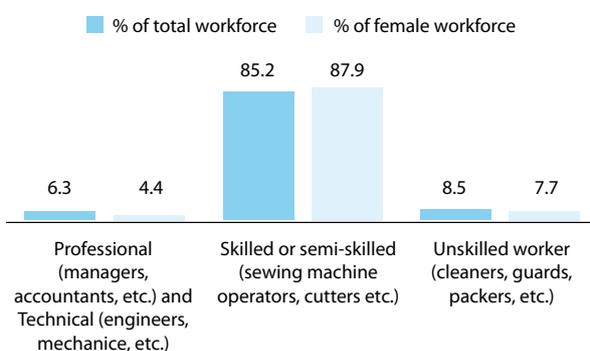
We note, however, that there is a high level of gender segregation across sectors in Lao PDR (as in most developing countries) with women constituting the vast majority of workers in the garments sector. Therefore, it would be useful to do a gender analysis of contract status across different types of industries where men and women are concentrated to better reveal any systemic or structural biases in contract status between men and women. It would also be useful to delve deeper into garment manager perceptions and hiring practices, for example, to determine whether employers prefer young female garment workers in part because they are believed to conform to gen-

der stereotypes of being more docile and more compliant than male workers and whether this in turn leads to less favorable terms of contract in this sector.

6.5 Gender, age and origin of workers

Women represent 85 percent of the total Lao garment sector workforce. While there are more women than men employed across all job categories in garment firms, the distribution of male workers and female workers across job categories differs somewhat: men are more likely than women to be hired as professional or technical staff, or as unskilled workers (Figure 8). Women are also the majority (79 percent) of supervisors at the production level across all firm sizes, although this figure is somewhat lower amongst medium-sized firms (65 percent).

Figure 8: Female workers are under-represented in professional, technical and unskilled positions relative to industry as a whole.



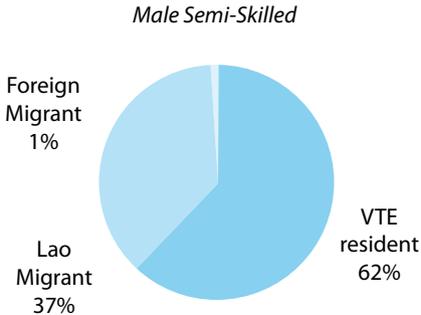
Source: World Bank LGSS (2011)

²⁸ Note that amongst smaller firms, owners are often also acting as managers.

About half of all female production workers migrate from outside of the capital city Vientiane, and thus they are more likely to be migrants than their male counterparts, 62 percent of whom are Vientiane residents (Figures 9 and 10). Male professional and technical staff are also slightly more likely to be from foreign countries (22 percent) than their female counterparts (19 percent).

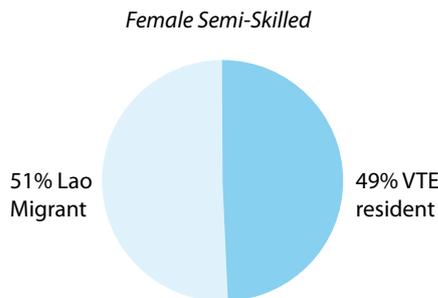
Female professionals tend to be younger than their male counterparts and the youngest segment of the workforce (workers less than 17 years old) is predominantly female (Table 2).

Figure 9: Most male garment workers are Vientiane residents...



Source: World Bank LGSS (2011)

Figure 10: ...while female garment workers are more likely to be migrants



Source: World Bank LGSS (2011)

Table 2: Distribution of garment workers across job categories by age and gender

Job category	14-17 yrs.			18-25 yrs.			26-40 yrs.			40+ yrs.		
	% M	% F	% T	% M	% F	% T	% M	% F	% T	% M	% F	% T
Professional (managers, accountants, etc.)	0.3	0.0	0.2	9.9	12.9	13.0	62.8	72.6	67.8	27.0	14.5	18.9
and Technical (engineers, mechanics, etc.)												
Skilled or semi-skilled (sewing machine operators, cutters etc.)	0.5	2.0	1.7	51.1	50.9	50.7	38.3	42.3	42.3	10.1	4.8	5.7

Source: World Bank LGSS (2011)

7. Managers' perspectives

This section reviews a series of key concerns raised by managers regarding labour practices and productivity in the Lao garment sector, namely: labour supply (recruitment and retention challenges), labour productivity (skills and training), labour relations (workplace dynamics and dispute resolution), as well as working and living conditions at their factories. The discussion seeks to reveal managers' perspectives on the nature of these challenges and what strategies firms are using to address them.

majority cited labour-related constraints as their main concern. This finding was largely confirmed in the 2011 LGSS in which large and medium firm managers overwhelmingly identified 'labour constraints' as their biggest challenge in doing business in Lao PDR (while smaller firms had more difficulties with raising capital and/or securing financing; Figure 11). Across all firm sizes, the majority of managers identified labour supply as their primary labour-related constraint and labour skills and productivity as their second biggest (Figure 12).

7.1 Labour supply

The 2009 World Bank Enterprise Survey for Lao PDR²⁹ included 50 garment factories among the sample. Among these firms the overwhelming

Figure 11: Labour is the top constraint for garment firm.

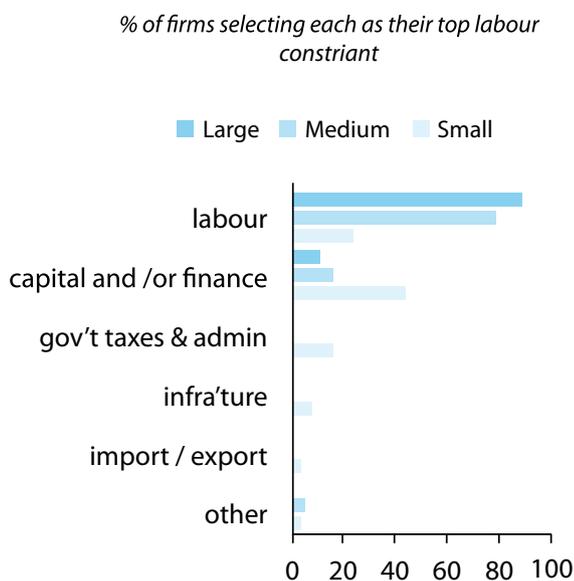
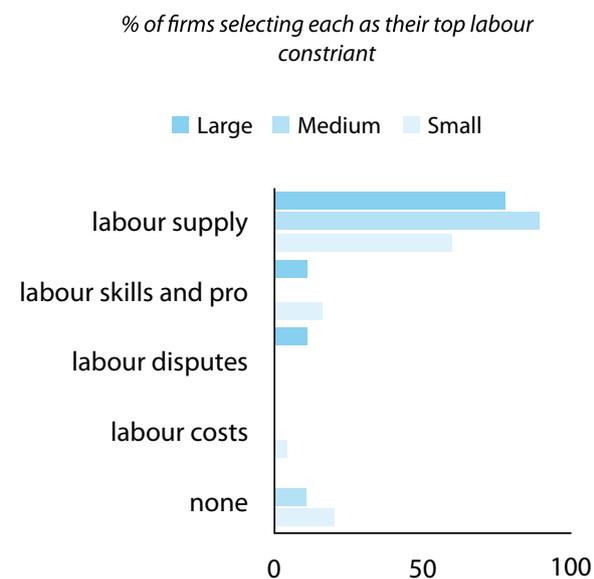


Figure 12: and in particular the supply of labour

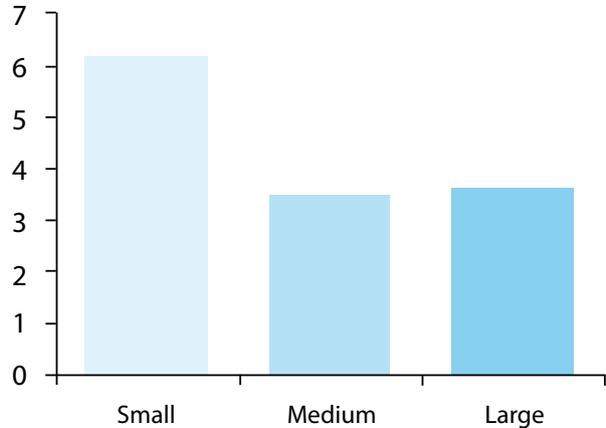


Source: World Bank LGSS (2011)

²⁹ Raw data available at www.enterprisesurveys.org.

All firms appear to have difficulty attracting and retaining workers with attrition from large and medium firms at around 3.5 percent of their workforce every month, while small firms lose over 6 percent of theirs. In contrast, firms report that as many as half of their workforce has been with the factory for three years or more. This suggests that there is a core longer-term workforce in the industry, and then a substantial proportion of workers that are constantly entering and exiting. While high attrition rates plague garments industries in many countries, managers of multi-national companies operating in Lao PDR report that this rate is high, even by regional industry standards.

Figure 13: A high percentage of workers leave the factory every month, especially so among small firms...



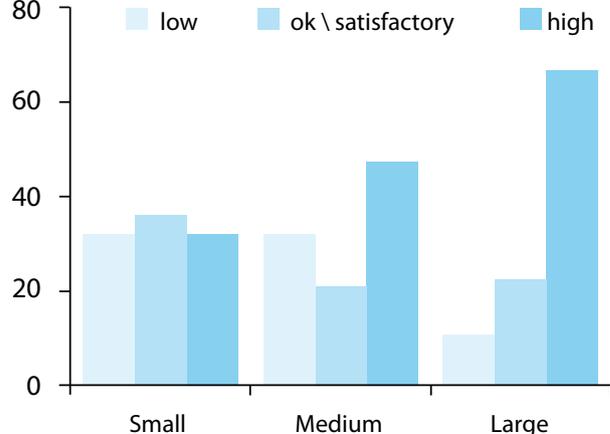
Source: World Bank LGSS (2011)

Interestingly, few managers report that workers leave to work in Thailand. This finding is somewhat surprising given the large number of Lao migrants (both legal and illegal) in Thailand and the strong “pull factor” that Thailand is regarded to exert on the Lao labour market. A possible explanation may be that migrants choose between Thailand

In addition, firms across all size groups appear to be losing more workers than they are recruiting. This would indicate that the sector is continuing to operate at levels below full capital utilization.

Managers report that their employees leave for a number of reasons. They believe that those who leave the industry completely are most likely to do so in order to return home to their communities or due to family responsibilities such as getting married, having children, etc. Workers at larger firms in particular seem more likely to move across factories within the garments sector, looking for better pay or working conditions.

Figure 14: ...but it is larger firms that are most likely to highlight the turnover level as being high (and a constraint to business operations)

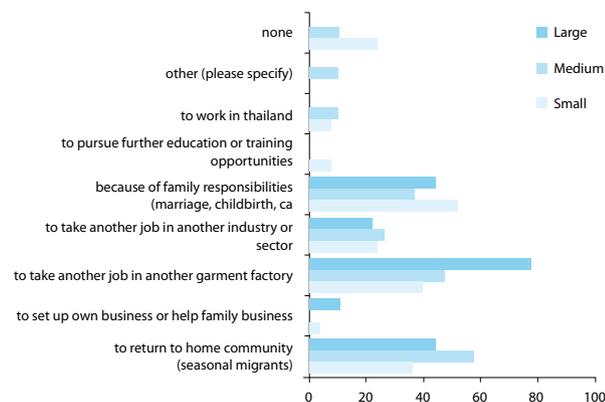


and the Lao garments sector as initial alternatives when seeking employment, rather than switching between the two. Certainly, the Lao garment sector attracts fewer migrants from the southern provinces of Lao PDR (bordering Thailand) than from northern provinces. This reflects Lao migration patterns generally which show migration to

Thailand is strongest from bordering southern provinces.

Given these high turnover rates, firms are constantly seeking to recruit new workers using a variety of strategies (Figure 16). The most commonly used recruitment strategies are simply through notices at factory gates and through informal networks of workers' friends and relatives. Some firms

Figure 15: Most commonly reported reasons for workers leaving the factory (percentage frequency by firm size)



Source: World Bank LGSS (2011)

About half of all firms reported minimum age of recruitment of 18 years or older, while half reported ages between 14-17 years³⁰. 90 percent of all firms claim they required some proof of age, although several reported difficulties with registration systems (e.g. family book, identity cards) used by local authorities and 78 percent of respondents from large firms believe that, despite proof of age requirements, some workers may be less than minimum age. Workers in FGDs said that documentation was not required from all firms and that false documents were sometimes used for those which did.

have tried recruiting through local authorities or sending company representatives on recruitment drives, and a small number have tried using the offices of the Ministry of Labour and Social Welfare (MoLSW) and private recruitment agencies. About half of all firms offer a 'finder's fee' bonus of between 1.25 – 25 USD depending on the skill level and retention of the new recruit.

Figure 16: Firms employ a variety of different strategies in order to recruit new and replacement workers



Source: World Bank LGSS (2011)

Firms reported average starting wages varying from approximately USD 48 at small firms to USD 60 at large firms. However, workers report some firms' practices of paying reduced wages for up to six months during a probation period, notwithstanding Lao Labour Law requirements to pay 90 percent of salary during a probation period not to exceed 30 days³¹. The minimum wage in Lao PDR (in force at the time of the LGSS) provided for a total minimum monthly compensation package of LAK 569,000, approximately USD 71 in total (Table 3). However, this salary structure of basic salary plus allowances has apparently been difficult

³⁰ Under Lao Labour Law (Article 41) 14- 17 year olds are permitted to work a maximum of 8 hours per day and are not permitted to work at night (10pm-5am).

³¹ Lao Labour Law, op. cit., article 27.

to standardize across firms with some firms paying the full amount in cash and others paying the various allowances in kind (e.g. allocations of rice instead of the meals allowances etc.). Following recent tri-partite negotiations, ALGI expects the minimum wage to be fully integrated into a single

base rate of LAK 626,400 (approximately 78 USD) from January 2012³². This compares to minimum wages of USD 75 in Vietnam, USD 68 in Cambodia, USD 61 in Bangladesh and USD 50 in Myanmar (all figures from ALGI).

Table 3: Legal minimum wage in Lao PDR in early 2011

Minimum wage (LAK)	348,000
Monthly allowance: meals plus attendance (LAK 8,500/day)	221,000
Total worker wage per month (26 days/month)	569,000
LAK wage per day	21,885
USD wage per day	2.74
LAK wage per hour (9 hrs/day)	2,432
USD wage per hour (9 hrs/day)	0.30

Source: ALGI

Wages for factory workers are calculated differently depending on jobs performed by different garment workers. Those in general units (packing, stock-room, etc.) usually earn a set rate based on the minimum wage plus allowances as described above. Those who work in production lines get a salary based on production wages calculated either on the basis of their individual production rates or on the basis of their unit’s production rates. Managers set piece rates and targets depending on the demands of different tasks. Workers then get compensated based on meeting and/or exceeding these targets with piece rates set based on levels of difficulty and average time spent on each piece.

In terms of strategies to improve retention rates, many firms report offering annual bonuses of increasing amounts for numbers of years worked, promises to move into higher paying positions in the production line and various other informal encouragements such as recreation events and

celebrations for national holidays. According to workers, managers also make it very difficult for workers to resign: withholding partial salary of new recruits and workers’ final month salary.

- *“When someone wants to resign, the factory refuses and puts pressure on us - often allocating that person to the areas that no-one likes such as general section. Some workers could not continue under these conditions and they decided to quit without approval - they just packed their bags and left without any termination pay.” (Lao garment factory worker)*

FGD participants seemed aware that garment factories are facing labour shortages and believed that it is easy for experienced workers to move in and out of jobs. They explained that after withdrawing from the workforce for a short period (3-6 months) workers tend to return to the same factory so they don’t have to ‘start all over again’.

³² Interview with President of the Association of Lao Garments Industries, Vientiane, 17 Oct. 2011.

7.2 Labour productivity

When large and medium-sized firms were asked to rate their company's willingness to make various investments in order to improve labour productivity and performance, they expressed strongest interest in the introduction of new production technology and line management techniques and were more sceptical of increasing wages, overtime pay and/or bonuses. However, more than half expressed some or strong interest in providing more benefits to workers and this jumped to 80 percent for non-monetary incentives. Over 90 percent of firms were interested in offering more training and career development opportunities to workers. In FGDs, workers also repeatedly expressed the desire for greater training opportunities to improve their performance within the garment sector.

All firms provide some basic initial skills training upon recruitment and new hires are quickly put into production lines to continue skills development 'on-the-job'. Two-thirds of large firms and about half of medium-sized firms provide workers with opportunities for limited skills-upgrade training mostly related to sewing, marking and cutting skills, but also for production management, line balancing and administrative/finance-related tasks.

When asked to identify priority training needs for their firm's workforce, production skills (cutting, stitching, etc.) and basic literacy/numeracy were identified as priorities for production workers, while production management skills (e.g. line balancing) and quality assurance (control, inspection, etc.) were most commonly identified as top priorities for production supervisors by small and medium firms. Large firms also identified team management and motivation as a top priority. At the management level, a diversity of training priorities was identified and responses varied significantly

by firm size. While training on 'merchandizing and production tracking' were identified as top priorities for managers across all firm sizes, 'marketing and sales' was a top priority for small and medium firms, while large firms also prioritized training in social compliance. Medium-sized firms were more likely to prioritize training on information technology for their managers.

Although managers identify skills deficits as a major contributor to low productivity levels, and despite the fact that managers had clear ideas about their workforce's training needs, many managers expressed reservations about investing in training for workers. When asked to identify the primary constraint for increasing their firm's investment in skills training, half of LGSS respondents cited 'loss of return on investment because of high turnover rates' and another quarter cited that 'useful or appropriate training was not available'. Interestingly, only four respondents cited insufficient resources as the primary constraint to greater investment in training. Several managers called for greater public investment in skills development for garment workers, some suggesting the establishment of a basic skills training centre to provide a skilled pool of applicants to the industry. However, firms were more reticent to send their existing workforce 'off-site' for skills-upgrading citing opportunity costs and logistics expenses, as well as the fear of losing workers to other factories.

7.3 Labour relations

Overall, managers painted a fairly positive picture of attitudes and relations in the workplace, somewhat in contrast with workers' accounts described further in the section 8.3. Almost 90 percent of managers surveyed from large firms felt motivation of workers was good, while only half of those from small firms and a quarter from medium firms

did. Managers from large firms were also more likely to rate relations between workers and their supervisors/managers as good, than did those from small and medium firms. However, these generally positive responses, especially from large firms, seem to mask a more complex reality on the factory floor, with both current and former workers in FGDs describing much more tension and conflict in the workplace.

Large firms are twice as likely as small and medium firms to report that problems or disputes in the workplace or in the dormitory affect production 'sometimes'. Complaints or dissatisfaction with pay and compensation, working conditions as well as with meals and accommodation were also commonly cited as causes of dispute. In large firms, disputes are most commonly resolved directly between the parties or with the involvement of a worker representative; while in small and medium firms there is more commonly also involvement of a supervisor or manager. Almost no firms reported involvement of an outside arbitrator or other third party.

Worker representation varies by firm size with nearly all large and medium firms reporting dormitory representatives as well as representatives of the Lao Federation of Trade Unions, while workers in small firms were more likely to have informal representatives. The Lao Women's Union was also present in just under a third of all firms. A majority of large and medium firms receive inspections by the Ministry of Labour and Social Welfare on labour practices, working conditions, social security and other matters within the ministry's mandate. However, many firms complained that labour regulations and social welfare system requirements were often unclear and arbitrarily enforced.

7.4 Working and living conditions

While managers of large firms generally rated workplace health and safety as 'good', managers of small and medium-sized firms were more likely to rate health and safety as 'ok or satisfactory'. This contrasts with FGD accounts from workers from some factories who described their working conditions as being very hot and crowded with poor water and sanitation facilities, and inadequate safety standards (exit doors, protective clothing, etc.).

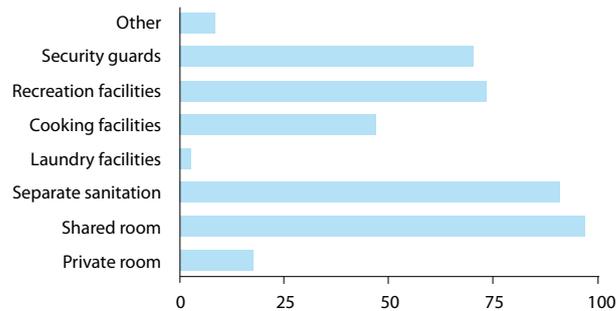
When asked to assess different aspects of workplace conditions, there again were variations amongst different groups of managers. The majority of all managers assessed quality of lighting as 'good'; but less than half assessed air temperature or air quality (exposure to dust, fibres, toxins, etc) as being 'good'. Around three-quarters of managers from large firms rated access to protective clothing or equipment as 'good' while only half of those from medium firms and a quarter of those from small firms did.

All large firms, two-thirds of medium firms and half of small firms provide on-site accommodation for a proportion of their workers. Overall, 54 percent of the Lao garment workforce are living in factory dormitories, about one-fifth of whom have small accommodation fees deducted from their wages. About one-third of all firms provide other off-site accommodation to workers (especially married workers or male workers who are ineligible for female dorms) and/or accommodation subsidies and allowances.

The number of workers reported per dormitory room varied from 2 to 20, as did the facilities provided in different dormitories, but overall, firms re-

ported providing the following facilities described in Figure 17 below.

Figure 17: Facilities available in garment factory dormitories (percentage of firms reporting)



Source: World Bank LGSS (2011)

Very few workers in focus groups and interviews were satisfied with their living conditions in factory dormitories, complaining in particular of unclean and inadequate water and sanitation facilities, lack of privacy, lack of ventilation and fire

safety, insufficient cooking and laundry facilities. Yet many new migrants found their only source of comfort and support from fellow dorm residents (discussed further in section 8.4 below).

8. Workers' perspectives

This section presents key concerns and issues raised by a cross-section of garment sector workers during focus group discussions and individual interviews. While neither statistically representative nor exhaustive, these perspectives offer valuable insight into the experiences of workers from a range of backgrounds, focusing on their recruitment expectations and experiences, working and living conditions, labour relations, social status and future aspirations.

8.1 Recruitment expectations and experiences

In FGDs, workers explained that most dropped out of school because their families could not afford the cost of education and needed older children to contribute to household income or family farming activities.

- *“All parents want to support their children to attend school but their economic situation means that children have to drop out of school to help on the family farm. In my family there are six children. We all attended primary school when we were too small to work in the farm, but when we were able to work, we left school. Therefore, in my family, none of us have completed primary school level.” (Lao garment factory worker).*

Some of their families saw little benefit in continuing education for girls:

- *“In my family there are 13 children. My parents always said that girls do not need secondary education: learning to read and write is enough for girls but boys should complete secondary education. Even with secondary education, we can’t get good jobs so I left school at Grade 3 and moved with my friends to find work in Vientiane.” (Lao garment factory worker).*

Most took jobs in the garment sector for economic reasons: seeking income as a pathway out of poverty, to support siblings’ education and to secure a better future for themselves. Many believed factory work to be preferable to working in rice fields or other options in their villages:

- *“I am working in the garment factory because I do not have a job in my village apart from working very hard in the rice fields for my family.” (Lao garment factory worker).*
- *“I worked in [another] garment factory for one year but my family asked me to come back and help in the rice field. I stayed there three years but it is harder than working in a factory, so I returned to Vientiane.” (Lao garment factory worker).*

Some also migrated to ‘see the big city’ and broaden their experiences.

- *“When I first came here I just wanted to see the big city. I had no intention of working in a garment factory... Then I felt I needed to get some money as I wanted to stay permanently in Vientiane, so I applied for a job here.” (Lao garment factory worker).*

Most had friend(s) and/or relative(s) working in the garment sector (or living in Vientiane with knowledge of factory work) who alerted them to some of the difficult living and working conditions, yet most still had expectations of ‘nicer supervisors, more income, less overtime, cleaner and safer working conditions with better accommodation facilities’.

For many workers, the reality of factory work is very different from their expectations: hard work and long hours of compulsory overtime, poor living conditions, and insufficient income (especially when first starting) to cover basic living expenses. In particular, demands of industrial working routines and pressure from managers were completely new and very difficult for many. But most felt they had little alternative having neither the skills needed for more attractive ‘office’ jobs, nor sufficient capital to start a small business.

- *“For a person who was born to a poor family then ended up with no qualification and no job opportunity, only garment factory or construction worker jobs are available to them.” (Lao garment factory worker).*

For most workers, recruitment is swift: many spoke of being hired ‘on the spot’ without any complex hiring procedures (beyond submitting proof of age) and little explanation of their contractual rights and obligations.

- *“When I applied for a job here they asked me only a few questions, no introduction of names, no information about work and they did not even tell me about how much I would get for my salary. After they decided to offer jobs [to me and the other new recruits] they called the line manager to bring us to the workplace. There was no time to settle down or prepare - we just started working immediately. We had to leave our personal belongings at the security box until we finished work; later, they took us to the dormitory.” (Lao garment factory worker).*

Recruitment procedures are more formalized in some larger factories: workers must be 18 years old or above, able to read and write, and provide proof of age and identification (ID card, family book, permanent residential certificate) and a letter of guarantee from their village headman. However, most participants in the FGDs reported starting to work in the factory while they were 15 and 16 yrs old and providing falsified documents. Conditions of employment (factory rules, working hours, salary and overtime requirements) are also more clearly explained in some larger factories.

Workers complained of the practice in some factories of withholding partial salary of new workers as a ‘guarantee’ to prevent them from quitting during first 6 months of employment; and that these earnings were never re-paid.

New workers, especially those migrating from rural areas, have difficulty adapting to a formal work environment and working under strict rules (no speaking or eating during working hours, fines for being late or absent, etc.), long hours and intense supervision. Therefore a large number chose a factory where they knew someone already working.

- *“When I first came here I was full of fear, scared that I would make mistakes then the supervisor would shout at me as he did to other workers. On my first day of work I saw the supervisor yelling very loudly at a woman; I was so scared that when he walked past, my hands were shaking. After that I got more used to the situation and working style. and when I could not, I just talked to myself or cried alone.” (Lao garment factory worker)*

According to several FGD participants, rigid workplace rules and harsh management make the workers lose loyalty and enthusiasm for their jobs; and is a major reason why workers quit.

- *“When we had a problem in the factory the only solution is to be patient; if we can’t then we quit. Therefore, when facing this situation, many of the workers who had never worked in garment work before and never had anyone yelling at them like this just ran away.” (former Lao garment factory worker)*

8.2 Working conditions

Overall, workers assessed their working conditions to be difficult and demanding, and in some cases, complained of being subjected to harsh treatment by supervisors. However most chose to continue working in the garment sector in order to earn much needed cash to help their families and improve their own prospects. Some expressed hope that their siblings and (future) children would not have to struggle to earn their incomes under similar conditions; and that this was in fact a motivation for them to continue working in the garment sector.

Hours

Managers report average working hours per week of between 56.5 (for small firms) and 59.3 (for large firms), including an average of 9 hours overtime. This finding contrasts significantly with testimonies from focus group discussions and individual interviews in which workers complained that overtime is often much longer, poorly paid and often compulsory.

Factories in Lao PDR do not appear to operate in shifts. Regular working hours are reportedly similar across the industry: a regular working day from 8-5pm (with one hour for lunch), six days per week with several daily hours of overtime throughout the week and on weekends, particularly during ‘crunch times’ (such as the months prior to Lao new year when workers generally have one week of annual leave). Although Lao Labour Law requires factories to provide every worker with at least one day’s rest per week and to seek authorization from the MoLSW (and approval of the workers’ representative) for workers to undertake more than 45 hours overtime per month (or 3 hours on any single day)³³, this does not seem to be an impediment to extending overtime in practice³⁴. The Law also clearly provides that workers are meant to be compensated at 150 percent for regular overtime; 200 percent for overtime at night (after 10pm) and at rates of 250 percent and 300 percent for overtime at night, on holidays or during weekly rest days respectively³⁵. However, according to workers, these overtime rates are not consistently applied in practice.

Instead, many workers report very low ‘fixed overtime rates’ that do not reflect Labour Law guidelines. They also complain of extreme exhaustion after being pushed to work ‘all night shifts’ and punitive measures against those who do not report to work the next morning.

- *“Overtime work is compulsory and everyone has to attend. If we are absent they will deduct a penalty that is larger than OT pay from our salary. ...If we have to do overtime from 6pm till 6am, we still have to come back to work again the next day at 8am - even we did not sleep. If we do not attend work that day, the manager will be very angry - we will receive a warning letter and a fine.” (Lao garment factory workers)*

While most workers seem happy to work reasonable regular overtime to earn extra income, many complain that excessive overtime for little compensation drains their energy and motivation and is often cited as a key factor in the decision to quit. Those who had a more positive assessment of their working conditions often referred to a ‘reasonable amount of overtime’ as a key factor.

Benefits

The majority of medium and large firms are enrolled in the state’s social security program which provides workers with public health insurance, maternity leave, and pension amongst other benefits (see Box 1). However, still roughly half of large and medium-sized firms report paying for workers’ health care costs directly.

Box 1: Lao Social Security System

The social security scheme was introduced in 1999 to expand insurance coverage from public sector employees to those working in private and state-owned enterprises. It is a comprehensive package of health care and other benefits including medical care, sick leave, maternity leave, death benefits, employment injury or occupational disease benefits, retirement pensions, life insurance, and disability insurance. The scheme is managed by the Social Security Organization (SocSO), a semi-autonomous organization within the Ministry of Labor and Social Welfare. Enrollment in social se-

³³ Lao Labour Law, op. cit., articles 18 and 19.

³⁴ It remains unclear whether authorizations are sought and granted by the MoLSW, or whether this requirement is simply not respected.

³⁵ Lao Labour Law, op. cit., article 48.

curity is mandatory for all enterprises with at least 10 employees and funding is generated from a combination of employee and employer contributions: 4.5 percent and 5 percent of employees' salaries, respectively, up to an income ceiling of LAK 1,500,000. Health insurance, which also receives government subsidies, is the largest of all benefits provided under the social security system and finances outpatient and inpatient care, and prescription drugs through public hospitals.

On the whole, workers in FGDs seemed to be unclear about their entitlements under Lao Labour Law (in relation to annual leave, maternity leave, pension, etc.) or even under their current contracts. They were also very sceptical about the benefits of participating in the state's social security program. Those who had direct experience with seeking health care using their public health insurance cards complained that service is poor and medicine provided is of cheaper quality than the medicine provided to those who pay for services 'out of pocket'. They also resented the deduction from their salaries and did not really understand why they were required to pay monthly insurance contributions even though they 'never got sick and never used it'. This would suggest the need for strengthening of the health insurance component of the social security system and better dissemination of information regarding its requirements and benefits.

Wages

Factories report that base monthly wages varied from USD 46 per month for unskilled workers in small factories to USD 71 per month for skilled or semi-skilled workers in large factories. However, those working in production lines can earn significantly more (upwards of double these base amounts) and most workers want to be in these units. The salary for most production line workers is calculated based on piece rates and targets set either for individual workers or production units. Only a small percentage of small and medium-sized firms (12 percent and 16 percent respectively) allow workers to earn additional income by taking extra jobs home.

Workers' views on their wages varied – with those able to achieve higher earnings through production 'piece rate' system more likely to express satisfaction with their salaries. On the lower end of the salary scale, and for those with dependants, many report finding it increasingly difficult to cover their basic expenses due to the rising cost of living.

Many workers complained that piece rates seemed to be set arbitrarily and some suspected managers of driving these rates down unfairly. In particular, new entrants appear to struggle to understand how piece rate coefficients are calculated depending on the relative difficulty and number of steps to produce an individual garment.

- *"Working in the tailoring unit is good because you can get more money if you produce more, but it is very hard work... and it is not fair because the piece rate is not stable: it is often changed depending on supervisor."* (Lao garment factory worker).
- *"I observed that if we are able to produce to targets for about 2-3 months then the piece rate gets reduced."* (Lao garment factory worker).

8.3 Labour relations

Participants in FGDs from different factories spoke about harsh behaviour by supervisors and managers as being the most difficult aspect of their working conditions. According to one group, the main reason that workers resign is 'supervisors insulting them and yelling at them when they made mistakes'. They feel they are being treated as low-skilled workers and not as valuable staff of the factory:

- *“The most difficult aspect of working in the garment factory is that you have too many bosses and they criticize you in front of everybody and make you feel very bad. Particularly when you are very tired from work and hoping to earn some cash that you could send to your family... then when they shout at you like you are not a human.” (Lao garment factory worker).*
- *“I would like the social welfare department come to check our factory once a month, I want them come to talk to workers in each line directly - interview workers not interview managers, because they won't tell the truth.” (Lao garment factory worker).*

“I want to attend Labour Law training.” (Lao garment factory worker).

There also appear to be cultural clashes between some Lao workers and foreign managers.

- *“There are many times that foreign staff use impolite and inappropriate words with Lao staff - humiliating us, scolding us and as a result we lose motivation and spirit while the pressure rockets.....” (Lao garment factory supervisor).*

Workers feel they have limited options for improving their situation or persons they can talk to.

- *“If there will be a counsellor or someone supposed to help us when we have problems, I would like to suggest that person should not be factory staff and should be friendly person... and it has to be a woman, otherwise it is useless again.”(Lao garment factory worker).*

Many workers' accounts suggest a lack of effective representation of workers in the garment sector:

- *“In our factory there is a trade union officer who is supposed to provide support for workers but he cannot help with anything. In the past I used to report to him about the piece rate having been reduced, and he just told me: never mind, I will talk to them for you. But he never takes action, I guess he is worried they will cut his salary too.” (Lao garment factory worker).*

Several others wanted to know more about labour standards and their enforcement:

One unexpected finding from FGDs suggests a slightly different picture from what is reported in other countries, with many workers complaining of strict rules and harsh supervision in some larger export-oriented factories, while those working in smaller, Lao-owned operations have a better assessment of their working conditions because of 'softer' family-style management. However this finding would need to be further explored as FGDs included workers from only one small, two medium, and one large factory.

8.4 Living conditions

Migrant workers generally depend on factories to provide them with accommodation in factory dormitories as they cannot afford to pay rent for private accommodation. Many said that they had expected better living conditions when they migrated to work in garment factories, although there is variation in the quality of accommodation provided by different factories. Workers regularly complain of lack of privacy or secure storage for personal belongings, being cramped in hot rooms with poor ventilation, no windows, no electrical sockets, no place to eat, insufficient and unclean toilets/baths, and insufficient water for drinking and bathing.

- *“We have to buy our own cooking pot and keep everything in a very tiny bedroom. A few days ago there was a power outage as we were us-*

ing too much electricity at the same time. Some nights I am too tired to wait for my turn to cook, so I just eat dry instant noodles then go to bed and get stomach aches.” (Lao garment factory worker).

- “Some nights I feel very thirsty but there is no drinking water in the dorm so I have to wait till morning to get drinking water at the workplace; those who have more money can buy drinking water... they treated us as we do not have any feeling and are not human.” (Lao garment factory worker).

Conditions are particularly bad where dormitories have been set up in old storage areas.

- “The dormitory where I stay is three storeys and it is divided into rooms... some rooms have up to 20 people. Before being a dorm, it was a storage room: they just put fans in, then put us in it.” (Lao garment factory worker).

Some managers expressed sympathy with the difficult living conditions of workers in factory dorms and made useful suggestions during the LGSS on how these could be improved, including through inspection and support from local health authorities, expansion of water and electricity supply, increased space for cooking, eating and recreation, etc.

8.5 Social status

Workers reported that attitudes towards them are mixed: some in the local community and in their home villages ‘looked down’ upon factory workers, but not all. They explained these negative stereotypes as follows:

- “In reality, garment factory girls consist of both good and bad but the society just decided that we are bad girls. I heard people - both men and

women - in my home town talk about garment workers very badly. They had a negative image about us: for instance, they said factory girls always go with married men and some girls sell sex to earn more money. Actually they know we do not all behave the same.” (Lao garment factory worker).

Male workers recognized that negative social images and stigma attached more to female garment workers than males, but they nonetheless complained that some people (including managers) treated garment workers generally as uneducated, low-status, rural people.

Others explained that attitudes in the local community where their factory is situated understand their situation and are more sympathetic:

- “I heard people selling food in front of the factory say that they felt so sorry for factory workers who have left their families hoping to earn some money and they have to live in poor conditions and eat low-class food”. (Lao garment factory worker).

What both male and female workers in FGDs did enjoy about their status was the freedom from traditional social constraints, to choose friends and have an income. Yet most workers expressed reservation when asked whether they would recommend garment factory work to their friends and relatives. Many thought they might find the working and living conditions too difficult, although it was at least an opportunity to earn income. However, they often did not want to see close family and friends doing such hard jobs or suffering the worst of their bad experiences. Those workers who would recommend family/friends take employment at their factory explained that this is ‘because it is better than living in the village without a job’.

8.6 Future aspirations

Most workers began working in the garment sector with the expectation to be able to put aside regular monthly savings. However, those with their own children report having difficulties meeting basic expenses; while single migrant workers generally report trying to put aside about 20 percent of their earnings into savings or to send home, but often find this difficult, particularly when they have been recently hired (and are subject to the withholding of their wages) or earn only basic wages (without additional piece rate pay). Remittances are mostly sent home to help cover costs of family agricultural inputs or siblings' education and other basic needs. Some workers were hoping to save enough to return to their studies (including to complete higher education diplomas) but most were either using their income to cover basic living expenses for themselves and their families, and/or trying to build enough capital to start their own small business (such as opening a food stand, tailoring shop, market stall or other small retail business).

When asked about their future aspirations most hoped to get married and open their own small business. It seems that participation in the garments sector may contribute to delaying age of marriage and first childbirth. Certainly most FGD participants expressed the desire to bear fewer numbers of children (2 or 3) than their mothers had borne, explaining that this was because of the rising cost of living and raising children, in particular, the need to invest in their education to ensure better opportunities.

When asked where they saw themselves in five year's time, most did not expect to be working in the garment sector, but had only vague plans – often contingent on whether their marital status would change. Building savings is their key strategy for building a better future, however this appears to be difficult for many. Most wish they had enough savings to move out of the garment sector sooner, explaining that 'only those who marry, return to family agriculture or have enough savings can leave permanently'. There was very little mention in FGDs of migration to Thailand as an alternative to their current jobs.

9. Implications for improving labour standards and productivity

This section identifies some preliminary implications at the levels of the firm, the industry and the public sector in Lao PDR, as well as possible support strategies for development partners.

9.1 Firm level

Findings from the survey and focus group discussions suggest a number of key areas where changes in policy and practices, and/or targeted investments could lead to higher staff retention rates

particularly during the key entry and transition phase for new workers, greater career continuity among the workforce (and therefore higher productivity) as well as to improvements in workers' well-being.

Increased transparency in conditions of employment, contractual rights and obligations. While most workers have been informed about their basic conditions of employment (hours, pay, benefits) they do not always understand their

contractual rights and obligations in any detail, nor how to enforce them. Furthermore, they report that even basic conditions (hours, pay, benefits) are not always followed in practice and can be changed arbitrarily. Therefore firms could take steps to ensure that conditions of employment are clearly understood by workers, including through increasing the transparency of systems for setting all rates (overtime, piece work, etc.) and any exceptions to these.

Better workflow management. Many workers identify overtime demands as a key area of dissatisfaction and reason for resigning³⁶. While firms struggle to respond to buyer demands for quick turn-around, they risk increasing dissatisfaction and turn-over in their workforce pushing down productivity. Firms should be encouraged to analyse their workflow management practices and implement improvements based on best practices drawing on experiences from the garment sectors in comparator countries.

Improved workplace relations. Workers identify both the physical and social aspects of their working environment as difficult and demanding. In particular, this study finds dynamics between workers and managers is a key factor in workers' well-being, productivity and retention rates. While managers indicate that disputes are generally resolved directly between the parties; workers explain that, in practice, they simply do not have any effective means to defend their interests to managers or resolve disputes, and therefore, ultimately resort to simply quitting. Improving workplace relations is therefore a key area for further study and action for garment firms³⁷.

Improved working and living conditions. While conditions vary between firms, there are consistent reports of inadequate provision of water and sanitation, as well as inadequate ventilation and cooling, in both workplaces and dormitories at many garment factories. Investments to improve these conditions, possibly through innovative public-private partnerships, are a key strategy for factories wishing to increase worker well-being and retention rates.³⁸

9.2 Industry level

The LGSS found that all large firms and the vast majority (95 percent) of medium firms are members of the Association of Lao Garment Industries (ALGI). When asked what information and support they would like to receive from the Association, many firms asked for more market information and information on new technologies, as well as support for labour skills development and international certification.

In addition to its role as industry representative and interlocutor with other stakeholders on labour issues, this study suggests four areas where ALGI can play a key role in assisting firms improve labour standards and productivity.

Skills development. ALGI recently established a Garment Service Centre offering training and consultancy services to garment factories, targeting supervisors and middle managers. While many LGSS respondents expressed some scepticism as to whether the GSC could meet their company's training needs, the majority wanted to learn more about services and training it offers.

³⁶ Various studies reviewed for a recent ILO/IFC Better Work Discussion Paper find that while certain levels of overtime can be both desirable for workers seeking extra pay and for managers seeking to increasing outputs, excessive overtime can lead to poorer worker health, reduced efficiency, high rates of accidents and worker dissatisfaction, resulting in high worker turnover and lower productivity (Seo 2011).

³⁷ A 2009 study by the IFC and Harvard University provides robust evidence of the positive impact of supervisory skills training on both working conditions and productivity in Cambodia. Analysis of factory records showed that workers whose supervisors received training demonstrated increased productivity and improved relations with their supervisors (IFC 2009).

³⁸ Recent evidence collected in Cambodia suggests that factory investments in improved working conditions do not lead to higher risk of plant closure (as might be suspected in a highly competitive market); but rather, there is some evidence that improvement in standards relating to compensation actually increase plant survival rates (Robertson et.al. 2011).

Sharing best management practices and minimum standards. ALGI could take a lead role in the dissemination of best practices and minimum standards for human resources management in the garment sector in areas such as workflow and overtime management, standard contracts, international certification, etc.

Strengthening industrial relations systems. ALGI could play an important role in supporting the development of effective systems for worker representation and collective bargaining at firm and industry levels; and support good practice on the dissemination of information on worker contractual rights and obligations, as well as on dispute resolution mechanisms.

Improving public image of garments work. In coordination with the MoLSW, and based on agreements for improved monitoring of labour standards and factory working conditions, ALGI could drive a public information campaign to counter negative stereotypes and improve the image of garment factories and workers.

9.3 Government level

When asked what support garment firms would like to receive from the Lao Government on labour issues, the most common requests were for support to increase labour supply and labour skills. Firms also requested more information and communication on government regulations from the Ministry of Labour and Social Welfare (regarding compliance with labour regulations and social welfare systems) and the Ministry of Industry and Commerce (on import-export tariffs and regulations). Meanwhile, many workers sought more information regarding their rights and obligations under Lao Labour Law. While this study did not survey public institutions, findings from firm surveys and focus group discussions with workers suggest some key areas for further consideration.

Labour market information and skills development. Both firms and workers suffer from a lack of regular information on labour markets in the garment sector and in the private sector generally. The resultant information asymmetries and gaps are leading to sub-optimal employment outcomes that could be improved with public sector support. Skills development is also a key concern to both industry and workers that will require intensified partnership between the public and private sectors.

Labour standards compliance. Labour standards compliance in the Lao garment sector (as elsewhere) is a key challenge and requires transparent and robust systems for their effective monitoring and enforcement. This study suggests scope for improvements in these systems in which the Lao government has an important role to play.

Strengthening industrial relations systems. The Lao government should be encouraged to act as a catalyst and arbiter for the development of a modern industrial relations system, adapted to the Lao context, and which draws from the experiences of the region and of other transitional economies.

Strengthening social security systems. While firms and workers in the garment sector have only limited experience with the social security system that was recently extended from the public to the private sector in Lao PDR, initial findings from both the firm survey and focus group discussion with workers would suggest the need for improvements to the operation of the system generally, and in the provision of quality health care through the health insurance system, in particular.

9.4 Development partners: Better Factories Lao?

This section points to opportunities for development partners to support and strengthen labour

standards compliance and monitoring systems building on regional experiences. In particular, it suggests drawing on experiences from the well-established Better Factories Cambodia initiative³⁹ (see Box 2). It also looks to emerging experiences from the new Better Work program in Vietnam where there are strong similarities to Lao PDR in terms of the model of economic development (i.e. transition from centralized planning to market-based systems while retaining unitary socialist state institutions, including for the representation of workers through centralized trade unions) and under-developed systems for modern industrial relations.

Making the case that an initiative to improve working conditions (both social and economic upgrading⁴⁰) is in the interests of Lao garment workers, is relatively easy. When asked why focus on workers in the garment sector, which represents only a small portion of the Lao labour market, one can point to the fact that unlike other broader-based sectors, the garment sector workforce is highly concentrated and relatively easy to access; it is therefore well suited for targeted interventions

and monitoring of impacts.

A significant proportion of the sector's workforce are migrant workers who face many challenges transitioning into the urban industrial sector and therefore represent a larger trend in labour force transition in Lao PDR. Indeed, this is a key transition for many developing countries where the apparel sector often acts as a gateway into manufacturing for workers whose alternatives might be in agriculture, the informal sector, or low-productivity service work (Lopez-Acevedo and Robertson 2012). Furthermore, one can point to the particular demographics of this young female workforce who are at a critical life cycle stage for the development of life-long skills and for the inter-generational transfer of improved human development outcomes (i.e. better health and education outcomes of children as the result of their mothers' delayed age of marriage/childbirth and increased income). Thus, focusing on a sector that employs young female workers taps into an important driver for long term economic growth and poverty reduction in Lao PDR (Kuttner 2008).

Box 2: Better Factories Cambodia (BFC)

BFC grew out of a Cambodian-US trade agreement promising better US market access in exchange for improved garment industry working conditions (this, in the lead up to the end of preferential treatment that the Cambodian industry had previously enjoyed under the Multi-Fibre Agreement, which was due to expire in 2005). BFC runs a program of unannounced factory visits to check on working conditions using a checklist based on Cambodian labour law and the standards of the ILO, and endorsed by the government as well as by employers and unions involved in the garment industry. To ensure accuracy, workers and management are interviewed separately and confidentially.

BFC began originally in 2001 as a project supported by ILO and was later joined by the IFC to help expand its compliance-focus to market-driven service provision for the industry. Subsequently more international buyers have been attracted to Cambodia and have been convinced to drop individual auditing requirements, relying instead on the BFC semi-annual synthesis reports accessible to all industry stakeholders. Participation is a condition of export licensing for manufacturers and therefore the program includes all exporting garment factories in Cambodia. BFC is guided by a tripartite committee from Cambodian ministries, the Garment Manufacturing Association of Cambodia and the Cambodian union federations.

Source: www.betterfactories.org

³⁹ See for example, randomized impact evaluation which found that training of garment supervisors in Cambodia led to higher productivity, lower reject rates, and lower costs (IFC 2009). Employee relations training for garment supervisors improved productivity through improved working climate - especially communication between foreign supervisors and Cambodian workers reducing conflicts.

⁴⁰ See discussion of distinctions between 'social and economic upgrading' and variations amongst types of workers in Barrientos et. al. (2010)..

Making the case to improve labour standards and productivity through a Better Factories-type partnership for the Lao garment industry, one can point to the persistent problems of high turnover rates and insufficient labour supply to meet demand from buyers. While margins are tight, Lao garment firms are still benefiting from relatively low labour costs which could be translated into greater productivity through efforts and investments to improve labour skills and labour standards⁴¹ as suggested by a recent global study of the apparel sector (see Box 3). The industry could also benefit from spill-over from neighbouring markets struggling with rising labour costs⁴². Further, the industry appears to be struggling with negative perceptions of some buyers regarding labour standards that could be overcome through a strong system of certification such as through a Better Factories or similar intervention. Garment manufacturers are also represented by a strong association (ALGI) which has demonstrated commitment to providing more and better employment opportunities in the Lao garment sector and is of

course, also eager to increase the productivity and profitability of its members.

Finally, supporting the labour intensive manufacturing sector is both in keeping with the government's export diversification and pro-poor growth strategy. In making the case that a Better Factories pilot be a good idea for the Government of Lao PDR, one can point to the direct benefits of such a program in the garment sector as well as its demonstration effects to other sectors. The Lao government is facing the challenge of a growing labour force with insufficient non-farm labour market opportunities⁴³. Understanding why under-employed rural workers are having difficulty transitioning from agricultural to industrial labour, and finding solutions jointly with industry and workers' representatives to overcome these challenges through a Better Factories pilot, could provide valuable lessons for strengthening the Government's pro-poor growth and employment generation policies under the country's 7th NSEDP (National Socio Economic Development Plan).

Box 3: Sewing Success?

"Having a vision for the evolution of the textile and apparel sector that incorporates developing worker skills is important... countries that had larger increases in apparel exports [during the post-MFA period] were those that promoted apparel sector upgrading...[Furthermore] in an industry driven by reputation-sensitive buyers in importing countries, concern for labor conditions and worker treatment may be not only a labor rights issue but also a competitive advantage, as the case of Cambodia suggests." (pp. 3-4).

Findings from the a global World Bank study Sewing Success? Employment, Wages and Poverty following the End of the Multi-fibre Agreement (Washington, DC, 2012)

⁴¹ See for example 'Productivity in Cambodian Garments Sector: Investing in skills development of workers and also in better industrial relations is key to improving productivity', BFC Newsletter No. 17, March 2011.

⁴² 'Rising labour costs bring benefits' by Song Huong (April 05, 2011) at http://www.vtgvietsam.com/marketnews_detail.asp?serno=222 (accessed 05/05/2011).

⁴³ See ILO projections that fastest labour force growth is to occur in countries with greatest numbers of people who are poor and the largest informal economies: Lao PDR (25.2 percent), Cambodia (22.1 percent) and Philippines (20.2 percent) followed by Malaysia and Vietnam (19.7 percent and 15.8 percent respectively (ILO 2008).

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Annex A: Methods of quantitative data collection and analysis

The primary method of quantitative data collection was through a firm survey carried out by Indochina Research (Laos) Ltd. between March and May 2011. This was done under the guidance of the World Bank study team which was also responsible for the survey design and analysis of results. It drew on models of firm surveys previously undertaken in Lao PDR (2009 Enterprise Survey, 2010 Social Health Insurance Survey) and labor-related firm surveys undertaken elsewhere by the World Bank. The Lao Garment Sector Survey covered questions grouped under the following headings:

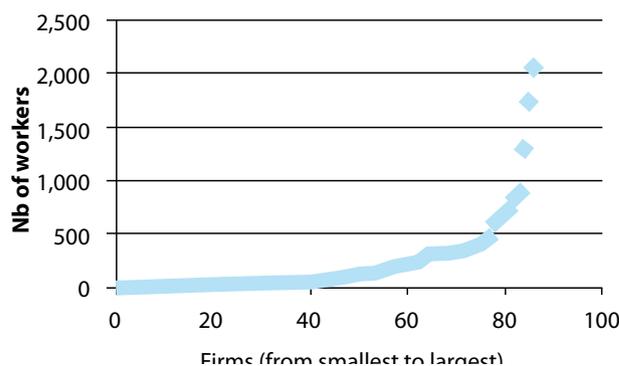
1. Firm characteristics (ownership structure, export-orientation, years of operation, etc.)
2. Workforce demographics (gender, age, origins, etc.)
3. Labour practices (hours, compensation, benefits, etc.)
4. Human resource management (recruitment, training, retention rates, etc.)
5. Labour relations and standards (health and safety, worker representation, etc.)
6. Labour productivity (rating labour-related constraints, use of performance indicators, etc.)
7. Business prospective (perspectives of managers on industry prospects over short and medium terms)

Details of survey implementation are as follows.

Population identification

Based on data provided by the Association of Lao Garments Industries (ALGI), there were 89 garments firms identified in Lao PDR (all located in the Vientiane area) employing 19,540 reported workers at the time of the survey (March – May 2011). Firm distribution (by size) is illustrated in the chart below.

Figure 14: Firm distribution by size

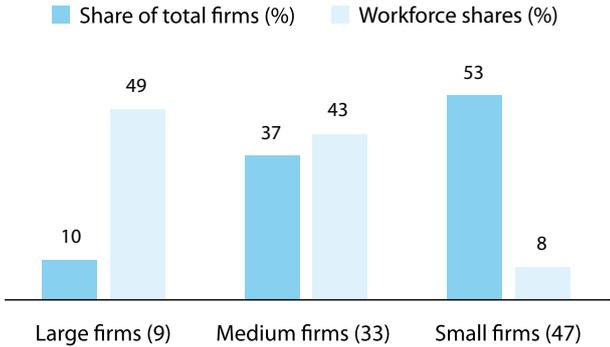


Source: World Bank LGSS (2011)

For the purpose of the survey, firms were grouped according to size: 47 small firms (with less than 100 employees), 33 medium firms (with between 100 - 499 employees), and 9 large firms (with 500 or more employees). The following table describes these categories of firms in terms of their share of all Lao gar-

ments firms (share of total firms) as well as their share of the total Lao garments workforce (workforce shares). Thus, as can be seen below, large firms constitute only 10 percent of all firms, but almost half of the total garments sector workforce. Medium firms constitute another 43 percent of the workforce, while small firms constitute only 8 percent of the workforce, although they number more over half of all firms. Actual numbers of firms in each size category are indicated in brackets.

Figure 15: Firm and workforce shares



Source: World Bank LGSS (2011)

Sampling

A stratified random sampling approach was used based on the sampling frame in Table 4 below. Adjusting for actual numbers of employees reported in the survey⁴⁴ (slightly increasing total workforce and causing one firm to ‘graduate’ from medium to large category), and removing firms no longer in existence from the sample, resulted in a sampling rate of 60% overall.

Table 4: Sampling distribution

Strata ⁴⁵	Number of firms	Share of total firms (%)	Workforce share (%)	Number of firms interviewed	Sampling rates (%)
Large	9	10.1	49.0	9	100
Medium	33	37.1	42.8	19	57.6
Small	47	52.8	8.2	25	53.2
TOTAL	89	100	100	53	59.6

Response rates

Response rates were generally good although there were some difficulties securing interviews due to managers being unavailable. For small and medium firms, this challenge was dealt with by selecting the next random firm from each group. However, non-responses and refusals from managers of small and medium firms did result in slightly lower sampling rates than originally planned for these groups.

⁴⁴ ALGI figures for number of employee per firm were therefore used for all non-respondents: that is, firms which were not surveyed and three firms from whom survey responses on number of employees were incomplete.

⁴⁵ This scale of garment firm size was developed specifically for this study of the Lao garments sector to reflect observed segmentation of the industry which in turn allows for analysis of relationships between specific firm characteristics/profiles and labour practices and/or productivity outcomes. This scale differs from the Lao Government’s categorization of firms as micro/small/medium/large as those having respectively, 1-4, 5-19, 20-99, 100+ employees. According to this classification almost all Lao garments firms would be considered either medium or large.

Other challenges

The complexity and length of this survey made it a challenge (ensuring comprehension of questions and accuracy of responses) for both enumerators and respondents operating in a relatively 'low capacity environment'. There were also challenges in ensuring the accuracy and appropriate translation of the survey and responses from Lao into English. In order to minimize these risks, extensive training of enumerators and piloting of the survey was undertaken under the guidance of the World Bank research team.

Method of data analysis

After extensive data 'cleaning', standard statistical analysis was undertaken using STATA. In the first instance, this was mostly tabulations of responses to all questions of the survey, sensitive for differences between small, medium and large-sized firms (with weightings based on sampling rates above).

Annex B: Regression analysis of the determinants of worker departure rates

In this sub-section we attempt to investigate causality between firm characteristics and/or practices with turnover rates as a proxy both for firm productivity (assuming high turnover reduces productivity) and for worker well-being (assuming that workers resign to improve their well-being). Although we try to account for possible measurement errors and risks of bias due to sample selection, reverse causality, etc, these results need to be interpreted with care given the small sample size. Nonetheless, they add some weight to the qualitative findings from focus group discussions on the determinants of worker departures. However, there were a number of key issues raised by workers during FGDs that could not be captured in the firm survey data: such as accounts of frequent and excessive overtime (beyond what managers reported), firm practices of withholding wages during probationary periods or as fines for minor infractions (contrary to Lao Labour Law provisions and therefore under-reported), as well as reports of harsh (sometimes abusive) treatment and conflict with supervisors. With these caveats in mind, the firm survey data results suggest that firm size, overtime frequency, working environment conditions, wages or workers' origins are possible explanations for what is described as one of the main constraints to the garments sector performance, that is, high worker turnover rates.

Description of variables (variable name in parenthesis)

Our variable of interest is the attrition rate at the firm level. It is calculated as the proportion of workers who left the factory in the year (e_29_512) over the firm's total workforce (c1_155). We aim to regress this variable on a number of independent variables that we suspect to be possible determinants of turnover rates:

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- (i) Firm size: we account for firm size by including size dummies (for small, medium and large) as defined in the quantitative analysis. We also account for a firm's overall performance by including the amount of total sales in USD (b3_63-us).
- (ii) Earnings: low wages may provide strong incentives for workers to leave the industry. We account for this by including either the monthly average minimum wage for both unskilled and skilled workers (d4_312 and d4_322) or the average starting wage for a new worker (e7_42a). However, this indicator needs to be interpreted with caution as the data on wages with various components (base wage, piece rate pay, attendance bonuses, in kind food and accommodation benefits, etc.) were difficult to capture as well as the probable under-reporting of wage reduction/withholding practices.
- (iii) Working environment: we include a set of dummy variables indicating whether the firm provides various social security benefits (d8_339 to d8_355), transportation benefits (d9_359), meals (d10_364), on-site and/or off-site accommodation (d11_366, d11_371) and whether the firm implements a

human resources plan (e1_400). As an alternative, and because our number of observations is very small, we build up a simple summary indicator ranging from 0 to 1 in which all mentioned variables enter equally. Note however that this does not allow for any consideration of the quality (actual or perceived) of any particular benefit; merely whether it is provided or not.

- (iv) Overtime work: according to workers responses in the qualitative analysis, OT hours are one of the main factors explaining departure. We account for OT including either the total number of hours worked (d2_302) or the overtime hours only (d2_303). However, this indicator needs to be interpreted with caution as there were significant discrepancies between the amount and frequency of overtime as reported by workers in FGDs and by managers in the firm survey.
- (v) Workers' origin: being a Lao migrant or a foreign migrant may induce workers to leave the factory to return in their home community. Within each firm we compute the fraction of workers being Lao migrants and foreign migrants (based on variables from part C3 of the survey).

Empirical strategy

We turn to the estimation of the following linear equation:

$$\text{attr}_i = \beta_0 + \beta_1 \text{sales} + \beta_2 \text{wage}_{\text{un}} + \beta_3 \text{wages}_{\text{sk}} + \beta_4 \text{over} + X_i + z_i + \varepsilon$$

where:

attr_i is the logarithm of the attrition rate, sales is the logarithm of annual sales in Lao kip (LAK);

wage_{un} and wages_{sk} are respectively the monthly minimum average wage in LAK for unskilled and skilled workers;

over is the average number of overtime hours;

X_i is a set of indicator variables accounting for the working environment; and,

z_i are time dummies.

Note that we cannot use a Probit regression model in that setting: even though our dependent variable is a ratio, it is not necessarily bound between zero and one. Indeed, some firms (in particular small ones) have attrition rates larger than 100 percent in one year. The total number of workers leaving and entering the factory over a year is greater than the number of workers employed at any one time. Hence our use of a linear regression model instead.

Possible sources of bias and caveats

Sample size: we are able to compute attrition rates for only 50 firms of our sample, as three firms did not provide the required information. Including a wide set of observables restricts our sample. Similarly, full observations are not available for all firms. As a consequence, we don't expect to find particularly significant estimates in the following regressions. Even when estimates are indeed statistically significant, their magnitude and subsequent interpretation should be taken with caution.

Sample selection bias: as described in annex A, only a portion of the targeted firms responded to the survey. Non-response may create a sample selection bias. We attempt to account for this possibility using a Heckman sample selection procedure (or Heckit procedure), in which the only variables included in the selection equation are size dummies. Indeed, the quite different sampling rates we had according to our three size categories indicate that size may be what drives mostly selection. Besides, the number of workers is almost the only information we have for non-respondent firms (ALGI).

Omitted variables / endogeneity: Many factors which may possibly have an impact on attrition rates and be correlated to some of our independent variables cannot be controlled for: workers' ability to bargain, overall socio-economic environment, unemployment rate, etc.

Reverse causality: high turnover rates may have an impact on a firm's performance, size and working environment.

All these potential biases affect the strength of our results and suggest that conclusions should be drawn with significant care.

Table B1: Determinants of attrition rates

Dependent variable: log attrition rate								
OLS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Firm's size	-0.309 (0.165)			0.032 (0.263)				
Medium		-0.517* (0.271)	-0.266 (0.316)		-0.179 (0.314)	0.368 (0.325)	0.424 (0.363)	0.738* (0.419)
Large		-0.508 (0.350)	0.147 (0.559)	-0.129* (0.076)	0.294 (0.555)	0.904 (0.559)	0.943 (0.577)	1.350** (0.654)
Ln sales (LAK)			-0.113 (0.076)		-0.145* (0.077)	- (0.078)	- (0.081)	-0.162* (0.090)
Overtime work				0.044* (0.023)	0.043* (0.026)	0.084*** (0.030)	0.085*** (0.030)	0.115*** (0.036)
Ln unskilled wage						- 1.377** (0.599)	- 1.385** (0.607)	-1.594** (0.622)
Ln skilled wage						0.746* (0.425)	0.739* (0.431)	0.833* (0.436)
Work environment							-0.034 (0.094)	-0.077 (0.098)
Lao migrant (%)								-0.007 (0.005)
Foreign migrant (%)								-0.064 (0.102)
Work environment dummies	No	No	No	No	No	No	No	No
N	50	50	50	50	50	41	41	41
R ²	0.06	0.08	0.09	0.15	0.18	0.32	0.32	0.37

Note: p<0.10*, p<0.05**, p<0.01*** Estimates for log variables should be taken as elasticities while others give the attrition rate returns to scale.

Results: OLS regressions

From the above regressions it appears that the amount of sales (in LAK), the number of overtime work hours and the average minimum wage for both skilled and unskilled workers are the most important factors for attrition rates. Indeed they remain statistically significant and with expected signs to the inclusion of other controls such as working environment proxy or workers' origins. Size dummies turn out to have a positive and significant impact only in the last column (8) when workers' origins are included. Interestingly, while a higher minimum wage for unskilled workers leads to a substantial decrease in attrition (a 1 percent increase in unskilled minimum wage reduces attrition by more than 1 percent in all specifications) as would be expected, we find the reverse effect for skilled workers. Using a summary indice or a set of dummies (not shown in the table) for the work environment never gives a statistically significant impact. Overtime work hours are the most robust determinant across specifications – as expected from the qualitative survey – though with a small magnitude: an additional OT work hour suggests an increase in the firm attrition rate by 0.044 - 0.115 percent. In general, implementing the Heckit procedure using firm size in the selection equation changes neither the magnitude nor the significance of most estimates, suggesting that selection is not incidental in that setting.

Results: 2SLS regressions

OLS estimation does not prevent us from the risk of reverse causality in the model. High attrition rates may impact a firm's size, economic performance or need for OT work hours. In order to isolate the causal impact of our dependent variable on attrition rates, we need to find a set of robust instruments for all possible determinants. Unfortunately, both sample size and the limited amount of information available prevents us from identifying and using good instruments. Looking at the covariance matrix between our dependent variables and other firm characteristics such as its ownership structure, percentage of output to export, etc., shows almost no statistically significant relationship. The only significant correlation (at the 10 percent level) we find relates positively a firm's size and its number of years of operations in Lao PDR. Furthermore it is unlikely that a firm's "age" may directly impact attrition rates. We therefore attempt to instrument firm size by age in a 2SLS model:

Table B2: Instrumenting firm size by age

Dependent variable: log attrition rate				
2SLS	(IV 1)	(IV 2)	(IV 3)	(IV 4)
Firm size	-0.913 (1.399)	-0.878 (1.421)	0.278 (1.387)	0.155 (1.065)
Ln sales (LAK)	0.098 (0.317)	0.081 (0.331)	-0.135 (0.312)	0.078 (0.193)
Overtime work		0.029 (0.038)	0.082** (0.039)	0.091* (0.055)
Ln unskilled wage			-1.318 (0.955)	-1.272 (0.853)
Ln skilled wage			0.703 (0.699)	0.655 (0.540)
Work environment				-0.018 (0.136)
Lao migrant (%)				-0.003 (0.010)
Foreign migrant (%)				-0.055

Work environment dummies	No	No	No	No
N	50	50	41	41
R ²	0.06	0.08	0.31	0.18

Note: p<0.10*, p<0.05**, p<0.01***

Using such an instrument, we should be aware that we mechanically increase the imprecision of our estimates – interpreting the results with such a small sample is then an even harder task. Thus, unsurprisingly most of our estimates lose their significance and display large standard errors. The only factor which seems partially robust to this 2SLS strategy is the number of overtime work hours: in the two last columns an extra OT hour increases the attrition ratio by 0.081-0.091 percent, results in the range of those found previously.

Results: Looking at the deviation of attrition rates to the sample mean, OLS

Instead of looking at the elasticity / returns to scale of attrition rates with respect to certain variables, we look at the impact of the latter determinants on the deviation of attrition rates to the sample mean. Indeed, what we are most interested in is what cause a firm to have a higher rates of departures compared to cover firms, rather than what causes attrition per se.

Table B3: Looking at the deviation of attrition rates from the mean

Dependent variable: log attrition rate								
OLS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Firm's size	-0.189** (0.090)			-0.104 (0.149)				
Medium		-0.323** (0.147)	-0.244 (0.175)		-0.228 (0.178)	0.094 (0.148)	0.108 (0.165)	0.256 (0.190)
Large		-0.307 (0.190)	-0.101 (0.309)		-0.074 (0.315)	0.302 (0.255)	0.312 (0.263)	0.524 (0.297)
Ln Sales (LAK)			-0.036 (0.042)	-0.032 (0.043)	-0.041 (0.044)	-0.066* (0.117)	-0.065* (0.037)	-0.067* (0.040)
Overtime work				0.008 (0.015)	0.008 (0.032)	0.037*** (0.013)	0.038*** (0.014)	0.052*** (0.016)
Ln unskilled wage						-0.663** (0.273)	-0.665** (0.277)	-0.766** (0.282)
Ln skilled wage						0.383* (0.193)	0.381* (0.196)	0.420** (0.198)
Work environment							-0.008 (0.043)	-0.028 (0.044)

Foreign migrant (%)									-0.019 (0.046)
Work environment dummies	No								
N	50	50	50	50	50	41	41	41	
R ²	0.08	0.11	0.12	0.10	0.13	0.17	0.32	0.37	

Note: p<0.10*, p<0.05**, p<0.01***

Overall Table B3 gives a rather similar conclusion than previous estimations. In the full specification, OT work hours, total sales and average minimum wage for both unskilled and skilled workers seem to be the best predictors of deviations for attrition rates from the sample mean, with consistent signs.

Conclusion

Though such a regression analysis is subject to a wide range of bias and caveats that cannot be totally ruled out (small sample size, reverse causality, omitted variables), we can nonetheless gain increased confidence in the finding from worker interviews that, in addition to difficult working condition and relations between workers and supervisors (which were not adequately captured in firm survey data), high overtime frequency and low levels of minimum wage for unskilled workers may be the most important determinants of the observed high turnover rates in the Lao garments sector.

Annex C: Methods of qualitative data collection and analysis

Qualitative data was collected using two methods: focus group discussions (FGDs) with workers, and individual in-depth interviews (IDIs) with workers and their supervisors. All FGDs and IDIs were conducted away from the factory and measures were taken to protect the anonymity of participants. All discussions and interviews were conducted in Lao language by a moderator using semi-structured guidelines focusing on the following topics:

1. Recruitment experiences and expectations
2. Working and living conditions (including a group ranking exercise)
 - a. Pay and compensation
 - b. Benefits
 - c. Workplace relations and environment
 - d. Living conditions
3. Social status and expectations
4. Personal well-being
5. Aspirations and alternatives

Focus group discussions

Six FGDs were conducted with workers in groups of 6-8 participants. Four FGDs were held with current female workers in four purposely selected garment factories to represent a range of firm sizes and ownership structures (one large foreign-owned, one medium foreign-owned, one medium Lao-owned, and one small Lao-owned). Participants were identified by the research firm (i.e. without factory management involvement) in order to represent a range of demographic characteristics (migrants/non-migrants, marital status, shorter and longer-term employees, living in factory accommodation or in the local community). A fifth FGD was conducted with former workers (identified by participants in previous FGDs) and a sixth FGD was conducted with male workers from these same four factories. Prior to conducting the FGDs, the research team compiled a matrix of demographic and background information on the participants including: gender, age (current and at time of recruitment), ethnicity, migration and marital status, level of education, household characteristics and length and position of employment in garment sector. FGDs lasted on average between 2.5 and 3 hours.

Individual interviews

From each of the four factories, two FGD participants (workers) were selected for further individual in-depth interview. One supervisor (head of line) and one dormitory manager was also identified from each of these factories for individual interview. Thus a total of sixteen individual in-depth interviews were conducted. These were used to triangulate the information collected through the surveys with managers and focus group discussions with workers. Interviews lasted on average between 45 minutes and 1.5 hours.

Analysis of FGD and interview data

All FGDs and IDIs were recorded and transcripts compiled and reviewed by the lead Lao researcher (World Bank consultant). Summaries of FGDs and IDI transcripts were prepared by the moderator/interviewer and these were translated into English. Summaries were then analyzed by the lead international researcher (World Bank consultant) for patterns and/or recurrence of responses and these were compiled in a document of 'main messages'. Summaries of groups with particular characteristics (males workers, former workers) as well as individual interviews were reviewed to identify any specific insights or particularities in their responses or contradictions with those of other groups.



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